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June 2, 2003

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FEDERAL MARITIME COMM

Bryant L. VanBrakle, Secretary
Federal Maritime Commission
800 North Capitol Street, N.W. - Room 1046
Washington, DC 20573-000 1

Re: FMC Dkt 02-l 5 (Passenger Vessel Financial Responsibility)
<u>-- Comments of Royal Caribbean Cruises Ltd.</u>

Dear Mr. VanBrakle:

Royal Caribbean Cruises Ltd. ("RCL"), the world's second largest cruise company,[1/] respectfully submits the following comments, and the accompanying Exhibits ("<u>RCL Exhs</u>") and "Financial and Economic Assessment of the Proposed Rule" by Dibner Maritime Associates (the "Dibner Report"), in response to the Commission's Notice of Proposed Rulemaking ("NPRM") inviting comments on proposed changes (the "Proposed Rule") to the passenger vessel financial responsibility regulations, 46 C.F.R. Part 540 (FMC Dkt 02-15; 67 Fed. Reg. 66352, 10/31/02). RCL also respectfully refers the Commission to RCL's previously filed comments on the regulatory aspects of the rulemaking, dated December 2, 2002, and RCL's comments on the outcome of the bankruptcy liquidation proceedings of American Classic Voyages ("AMCV"), dated May 27, 2003.

RCL applauds and supports the Commission's stated goal to enhance consumer protection of cruise passengers. Passengers are the lifeblood of the cruise industry. It therefore is important that they be satisfied and feel secure in taking cruises, including that they will get their money back if a cruise line does not perform a scheduled cruise. Passengers must be protected, as they have been for the past 36+ years under the Commission's Section 3 program, from fly-by-night operators and undercapitalized cruise lines. In the rare event of cruise nonperformance (e.g., due to mechanical failure or other unforeseen event), RCL and the other major Passenger Vessel Operators ("PVOs") go beyond what is legally required. These large PVOs not only refund the passengers' monies, they also offer discounts on future cruises, while protecting travel agent

[1/] RCL, a publicly-held company listed on the New York Stock Exchange, is a global cruise vacation company that operates Royal Caribbean International ("RCI"), the world's largest cruise brand, and Celebrity Cruises ("Celebrity"), both of which participate in the FMC's financial responsibility program. *See* <u>RCL Exhs 1 & 2.</u>

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commissions (see, e.g., RCL Exh. 3.A). These PVOs also maintain large customer service staffs, whose sole goal is to satisfy any passenger concerns and "win back" any dissatisfied customer. The PVOs are justly proud of the industry's high customer satisfaction rating, which far exceeds that of all other elements of the travel and leisure industry. The large PVOs are harmed when passengers suffer from nonperformance by small failed PVOs and others.

The interests of the Commission and of the cruise industry in promoting cruise customer interests are thus well-aligned. Having said this, RCL is extremely concerned about the present proposals to address cruise line nonperformance. These proposals would impose huge costs on cruise lines and their customers, and threaten the very fabric of the industry, for absolutely no real benefit or increased protection to the consumer. The Commission's key concern is clear and understandable – what happens if a major cruise line, holding hundreds of millions of dollars in customer deposits (that are not covered by an FMC-sanctioned guarantee), fails and ceases operating? This is the same question the Commission asked twice before when it considered, and rejected, earlier proposals to eliminate the ceiling on required Unearned Passenger Revenue ("UP,") coverage – once following an in-depth investigation in Fact Finding Investigation 19, and then again after several years of proceedings in Dockets 94-06 and 94-2 1. It is the same question that can be asked of the airline industry, the hotel industry, or any other business that collects substantial monies before the services or goods are delivered.

The answer lies in (1) the strength and resilience of the cruise industry, and the public's love of cruising, (2) the financial strength of the four major PVOs -- Carnival Corp.,[2/] RCL, Norwegian Cruise Line ("NCL") and Disney Cruise Line ("Disney") -- which account for some 97% of all U.S. port cruise passenger departures, and which have a combined net worth in excess of $40 Billion ("B"), and are all publicly-held and subject to public financial reporting requirements, (3) the value inherent in (and low marginal operating cost of) the new, state-of-the-art, large cruise ships and the brand names of these PVOs, which would compel creditors to keep operating the vessels, and honor cruise tickets, in the event of any PVO failure," and (4) the entire range of existing consumer deposit protections, including credit card coverage, third-party insurance covering cruise line failure, the existing FMC bond coverage, and the consumer deposits priority under Section 507(a)(6) of the Bankruptcy Code (11 U.S.C. § 507(a)(6)). The very fact that millions of consumers entrust more than $2B in deposits to the major PVOs is an extraordinary vote of confidence in the cruise industry and the combined adequacy of the

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[2/] Carnival merged with P&O/Princess in April 2003 to create a combined company with dual-listed stocks on the U.S. and United Kingdom (U.K.) stock exchanges (*see* RCL Exh. 4.A). Carnival has stated that it intends to continue the Princess brand. Combined *pro forma* data on the combined companies is set forth in RCL Exh. 4.D.

[3/] The cruise brands of these four companies (and their respective numbers of vessels enrolled in the FMC Section 3 program as of 2/6/03), are Carnival Cruise Line (21), Celebrity (9), Costa Cruises (7), Cunard Line (3), Disney (2), Holland America Line (13), Orient Lines (1), NCL (9), P&O Cruises (6), Princess (12), RCI (17), Seabourn (3) and Windstar (2) (RCL Exh. 8). These brands each have decades, and in some cases more than a century, of service.

foregoing considerations. This is simply overwhelming evidence that additional, costly protection is not required.

RCL has devoted a great deal of effort to answer some of the related questions that the Commission may have. RCL's brief answers (which are amplified below and in the accompanying Dibner Report), include the following:

- ***Why have there been a half-dozen or so cruise line bankruptcies over the past few years?***

  Every single bankruptcy has involved a carrier that operated one or a few relatively small old ships having an average age of almost 40 years. These operators did not invest their profits to recapitalize their fleets, and were unable to compete with the efficient, state-of-the-art, new cruise ships introduced during the past few years by the major PVOs. With the exception of AMCV, the failed operators simply ran out the string on those assets. AMCV's unsuccessful effort to build two new cruise ships is well-known.[4/]

- ***What are the chances that a major cruise line couldfail, and what would happen should such occur?***

  RCL operates the largest cruise ships in the world, having an average age of about six years.[5/] RCL and the other major PVOs have invested tens of billions of dollars in new vessels, and billions more in developing and preserving their brand identities. They earn excellent returns for their shareholders, as shown by a ***combined net equity of about $16B for the three largest PVOs – eight times the amount of customer deposits on hand.***[6/] This is just one of several key indicators showing that, based on current and reasonably foreseeable market conditions, the chance that a major cruise line would fail, stop operating, and be unable to cover customer deposits (all three of which must occur before the FMC's nonperformance program is needed), is essentially zero. Even if a major PVO were somehow to fail, the value inherent in, and low operating costs of, the PVO's modern vessels, as well as the value inherent in the PVO's cruise brand names, would strongly motivate creditors to continue operating the vessels and honor existing tickets."

4/ *See generally* Dibner Report at 7, 11-13, and App. 4 ("Assessment of the Causes of Cruise Line Failures") & App. 5 ("History of the Interruptions Cited by the FMC").

5/ *See* RCL Exh 2.A, and Dibner Report at 8 Fig. I-3; *and see* RCL Exh 1.E (RCL), Exh. 4.D (CCL) & Exh. 5.E (NCL).

6/ *See generally* Dibner Report at 7, 11-13 & App. 5 ("History of the Interruptions Cited by the FMC").

7/ *Id.*, Dibner Report Part III.B, at 18-19 (lenders and creditors are committed to preserving brand value and reputation in order to maximize ultimate value in any market or financial circumstances).

- ***What happens when a PVO fails, and specifically are existing consumer protection mechanisms generally sufficient to protect consumers against loss of their deposits?***

  If a PVO fails and ceases operating, passengers have recourse to recover their deposits through a variety of mechanisms including credit card coverage if a credit card was used for the purchase, third-party insurance covering cruise line failure if purchased, and the priority preference protection for consumer deposits under the Bankruptcy Code, all in addition to the existing FMC bond coverage.[8/] As acknowledged in the NPRM, these mechanisms have proven sufficient for the past 36+ years to allow every passenger on failed cruise lines covered by the FMC's program to recover their monies (67 Fed. Reg. at 66353). The one possible exception noted in the NPRM was AMCV, which was still in ongoing bankruptcy proceedings at the time the NPRM was issued. Those proceedings have now been completed, and it appears from the Court's Order and approved liquidation plan that the AMCV passengers also will get their money back, despite the absence of any FMC financial bond coverage." Thus, even in the cases to date, involving "budget" cruise lines with scrap value ships, passengers have gotten their money back. Certainly a similar result would be expected were one of the major PVOs somehow to fail, given the huge equity and value in such companies and their modern fleets. And indeed, as noted above, it is highly likely that, in such a situation, creditors would continue to operate the vessels and honor passenger tickets, to protect the creditors' own economic interests.

- ***Is there any scenario under which the passengers of a major cruise line could lose their deposits?***

  Given current and foreseeable market conditions, the only scenario where substantial customer deposits could potentially be lost would involve the sudden, total and prolonged destruction of the North American cruise industry. It is hard to imagine what it would take to achieve such a result, given the remarkable resilience shown by the cruise industry and the traveling public in responding to past events, including the horrific terrorist attacks of 9/11. Insuring against such catastrophic circumstances is not remotely the purpose of the Section 3 program. And were such to happen, we all would have far more pressing concerns and interests.[10/] Indeed, it is interesting to note, with all the disruption of 9/11 and

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8/ *Id.*, Part III.C ("Alternative Available Sources of Passenger Deposit Protection"), at 20-23. As also noted in the Dibner Report, passengers and their travel agents have a strong self-interest in identifying and avoiding any vacation provider that presents a serious risk of non-performance. This is a very important, but not easily measured, line of defense against a serious default.

9/ *See* RCL's May 27, 2003 comments letter in this Docket, discussing the recent outcome and impact of the AMCV bankruptcy proceeding.

10/ *See* Dibner Report at 20 ("Subjection of the Cruise Industry to Unique Attempts to Indemnify Against Catastrophe").

the total shut-down of the nation's air traffic system for a number of days, just how few passenger complaints the FMC received from passengers relating thereto.[11/]

- ***Has anything happened since the FMC last reviewed these issues that warrants the Commission reaching a different conclusion than its predecessors?***

No! Indeed, to the contrary, the cruise industry today is far stronger than it was in 1990 and in 1994-96. The industry has consolidated around four, financially strong, major PVOs, which have invested billions of dollars in new, efficient, state-of-the-art vessels that are destinations in and of themselves.[12/] Passenger growth has more than doubled from 3.7 million ("M") passengers in 1990 to 7.6M passengers last year,[13/] operating costs have decreased, and occupancy rates are high, even with all of the recent political, economic and health uncertainties. Cruising is no longer the province of the rich and elderly, but rather has expanded to encompass mainstream America. Moreover, as demonstrated by ongoing industry expansion to new ports, the cruise industry is just beginning to penetrate new geographic and "drive-to" cruise markets.[14/] Virtually all of the undercapitalized "budget" lines and old vessels that prompted Congress's concerns in the mid-1960's are now gone.[15/] Every single change or trend in the industry supports maintaining the ceiling, as the Commission's predecessors concluded in prior years.

- ***Precisely what role has Congress given the FMC in this area?***

Congress charged the Commission to ensure that PVOs are financially responsible, and to protect the public from the type of fly-by-night operators that preyed upon passengers in the mid-'60s. However, Congress envisioned this being done primarily through the review of financial information to be submitted by the PVOs. Congress clearly never intended that the Commission establish a passenger refund guarantee program. And indeed, Congress made this intent unmistakably clear in 1993 when Congress amended Section 3 specifically to delete the only language that could even arguably have been read to require dollar-for-dollar coverage. The Commission always has recognized this role, and from the very outset has implemented a ceiling on UPR coverage to insure certain minimum coverage for all operators, but strike an appropriate balance between costs and benefits for the larger, more established carriers that the Commission has recognized pose little risk.[16/]

11/ *See* RCL Exh. 7, Attmt 1 (30 complaints in CY01 & 26 complaints in CY02).

12/ *See* Dibner Report Part II ("Defining the Current Cruise Industry Structure"), at 9-11.

13/ *Compare* RCL Exh. 9.C ("More than 7.6 million North Americans are estimated to have cruised in 2002") *with* RCL Exh. 15 at RCL0133 (3.7M passengers in 1990).

14/ *See* RCL Exhs 10.A & B.

15/ Dibner Report at 7, 11-15 and Apps 4 & 5.

16/ *See* Final Rule in FMC Dkt 90-01, 55 Fed. Reg. 34564 (8/23/90).

- ***What are the costs of eliminating the ceiling?***

  Eliminating the ceiling will impose an enormous cost on the industry, requiring PVOs to finance and tie-up more than $2.3B of capital in unproductive financial guarantee accounts. This will strain PVOs' financial resources and liquidity, and force them to divert funds from new building and expansion programs. The general economic and competitive market impacts will be widespread, and ultimately the very consumers the Commission seeks to help not only will have to pay the resulting higher costs, but also will face reduced cruising options and less competition. The direct and indirect costs will be in the hundreds of millions of dollars each year. Had the Commission's predecessors taken such an approach in the past, the economic burdens over the years would have been huge, with absolutely zero benefit to the consumer. However, it is hard to imagine the cruise industry being anywhere close to what it is today under such circumstances.

For all of these reasons, RCL strongly opposes the proposed elimination of the UPR coverage ceiling. RCL respectfully urges the Commission to consider carefully all aspects and impacts of this proposal, and to conduct a detailed cost/benefit analysis, before moving forward with such a momentous change in long-standing Commission policy and interpretation of its statutory authority.

The NPRM's suggested exclusion of FCBA-covered credit charges from the UPR coverage requirement makes considerable sense on one level, to avoid redundant coverage and unnecessary additional passenger expense. However, RCL believes that this reasonable goal would be better achieved by the Commission taking "administrative notice," as it effectively has in the past, of <u>all</u> of the existing protections available to passengers. This includes not only credit card protections, but also third-party insurance, PVO net worth, and the consumer deposits priority under the Bankruptcy Code. As comments already filed by two credit card interests make clear, the Commission's approach threatens to upset existing cooperative commercial relationships that benefit cruise customers.[17/] Moreover, the Commission's approach would impose burdensome new reporting obligations on PVOs and travel agents to track credit card charges, including the timing thereof. The PVOs do not today have systems in place to accomplish this. Finally, there is a marked, and wholly unjustified, divergence between the FCBA's minimum coverage (60 days from the customer's receipt of the relevant billing statement) and the far narrower proposed EPR

17/ *See* the comments filed by Discover Bank, and its affiliate Discover Financial Services, Inc. (jointly, "Discover"), dated April 4, 2003, and by Visa USA Inc. ("Visa"), dated April 28, 2003, stating that the Proposed Rule could result in "higher costs and fees to merchants and consumers" (Discover Cmts at 5), and could create "a strong incentive" for credit card companies "to defer the availability of funds to the cruise lines" (Visa Cmts at 3). The NPRM states that "Whatever means credit card issuers use to cover risks posed by excepted passenger revenue or the FCBA is beyond the scope of this proceeding" (67 Fed. Reg. at 66354 n.8). However, the Commission cannot simply ignore the known consequences of its actions, particularly where, as the credit card companies point out, it is the Commission's action in singling out the credit card companies that is motivating such consequences.

definition (within 60 days of the sailing date), which substantially reduces the intended benefit of the proposed exclusion.

RCL also opposes the proposed mandatory Alternative Dispute Resolution ("ADR") process. This proposal threatens to disrupt and potentially destroy existing commercial processes that generally have worked extremely well. Moreover, the proposal would impose significant new costs and uncertainties on PVOs and their passengers, with no perceivable benefit and substantial risk. To the extent the proposal reflects frustration with the amount of time that it takes to resolve true nonperformance claims -- whether under the Commission's Section 3 program coverage or in a bankruptcy proceeding -- the proposal, while well-motivated, is misdirected.[18/] At that stage, the PVO no longer exists, and certainly is not involved in disputing recovery. Rather, the issue is solely one of proper claims processing and substantiation in accordance with well-established legal and commercial standards and processes that are designed to ensure fair treatment to all similarly situated claimants.[19/]

To the extent that the ADR proposal also is directed at other than true nonperformance claims, the proposal exceeds the Commission's jurisdiction, and threatens to disrupt well-established commercial and legal avenues to resolve such issues.[20/]

In either case, the Commission would be making a serious mistake to believe that it has sufficient resources, and is better positioned to resolve such issues than companies that specialize and are experienced in such processes, and to make the Commission, potentially, the forum of first

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18/ During the January 30, 2002 Commission meeting, the FMC Staff noted that "[t]hese claims take some time to pay," and stated that the staff was "exploring to see if there is some way the Commission can do something that would help shorten the time period for the payment of valid and legitimate claims" (Tr. at 12, 13).

19/ As acknowledged by the FMC Staff, the delay in paying nonperformance claims is due to "[t]he sheer volume of claims that are filed" in a failure, and "difficulties with records of the cruise line when it's a bankrupt firm," and "[f]inding those records, [and that] finding personnel who know how to interpret them can take time" (1/30/02 FMC Meeting Tr. at 12-13). As the Commission has recognized, in some cases delay also has resulted from interactions between the FMC bond process and parallel bankruptcy proceedings (*see, e.g.,* the extended stay on FMC bond payouts imposed by the Bankruptcy Court in connection with Regency Cruises; RCL Exh. 16E). None of these issues is addressed or would be resolved by the Proposed Rule, and would equally frustrate and delay any Commission ADR proceedings that might be attempted.

20/ Although the NPRM is less than clear on this point, the language regarding providing "protection to passengers who are otherwise unable to obtain relief," in juxtaposition to the conjunctive language in the same sentence addressing settlement of "claims for nonperformance" (67 Fed. Reg. at 66355), appears to suggest that the proposal is intended to extend beyond nonperformance claims to encompass the whole range of passenger complaints received by the Commission. This is particularly so when such language is combined with the NPRM's discussion of "the number of passenger complaints received by the Commission" (*id.* at 66353) – many of which have absolutely nothing to do with nonperformance (*see* RCL Exh. 7, RCL0085-86, 89 & 89A). Interestingly, in letters responding to Congressional inquiries regarding such other complaints, the Commission has consistently stated that the subjects of such complaints are outside the Commission's jurisdiction (*id, see, e.g., RCL Exh. 16.*). The Commission cannot now use Section 3 as a basis to expand its jurisdiction to include such complaints.

resort.[21/] RCL alone has 122 full-time customer service personnel just in the United States to deal with customer service issues, and the other major PVOs have similar staffs. These people are very good at what they do, and have a mandate to "win back" the passenger that goes far beyond anything the Commission could undertake or hope to accomplish. The very small number of passenger complaints received by the Commission, compared to the large number of cruise passengers, is a testament to the outstanding job these people do, and establishes the lack of need for the proposed ADR process.[22/]

RCL urges the Commission to move very cautiously, and to consider carefully all potential implications and ramifications, before moving forward with this ADR proposal and disrupting the PVO/passenger relationship by injecting the Commission into the middle thereof.[23/]

The NPRM also raises several other issues that warrant some clarification. These include (1) transition to any new regime, (2) clarification of the definition of UPR, (3) reduction of the UPR tracking and reporting burden by using a single month-end number, and (4) clarification of the proposed new "partial ship" exclusion.

These comments will address each of the foregoing issues. First, however, some factual background is necessary as to the history of the Section 3 program, and the Commission's consistent interpretation, reinforced by Congress's 1993 amendment of the statute, that Section 3 was never intended to serve as a "financial guarantee" and require dollar-for-dollar UPR coverage. Next, the comments describe RCL and its specific interest in this proceeding, as well as today's modern cruise industry, and contrasts today's major PVOs with the failed cruise lines cited in the NPRM. The comments then discuss some of the data obtained from the FMC's files as to the parameters and scope of today's Section 3 program.

21/ While such may not be the Commission's intent, the reality, in today's Internet-connected world with many travel websites and chat rooms, is that the very first time a favorable decision were to be achieved through such a process awarding relief that was either faster or more generous than otherwise available, a virtual flood of complaints would follow seeking similar relief, which would quickly swamp whatever processes the Commission might establish. Indeed, it is interesting in reviewing the FMC's passenger complaint log to note that certain complaints came in waves, suggesting a mass response to some suggestion that the problem, whatever it may have been, should be directed, in the first instance, to the FMC (*see* RCL Exh. 7, at 2 & n.6).

22/ Excluding cruise line failures, FMC filed passenger complaints have remained essentially flat over the past three years, averaging 172.7 complaints per year. This compares to an increasing number of passengers averaging over 7.1M annually. *See* RCL Exh. 7 at 3-4 and Attmts 2 & 3.

23/ While being willing to try to facilitate a quick and fair resolution, the Commission in the past always has been very careful to emphasize that, ultimately, "the final resolution of such complaints or inquiries ***is a matter between the cruise line and the individual***" (FMC "Notice to Cruise Passengers," posted 2/14/02; emphasis added).

Factual Background [24/]

A. The Statute – Enactment and Amendment of Pub. L. 89-777:

In late 1966 Congress enacted Pub. L. 89-777.""' Section 3 requires that each owner or operator of a passenger vessel with 50 or more berths embarking passengers at a U.S. port establish its financial responsibility to indemnify passengers for nonperformance of the transportation.[26/] This provision arose out of several instances in the early 1960's where passengers who had booked cruises on chartered vessels were left stranded at the docks, without any remedy, when the chartered vessels failed to show up and the charterers disappeared without a trace.[27/] Section 3, while covering all passenger vessels, was directed primarily at such irresponsible vessel charterers and other "fly-by-night" operators.[28/]

By its express wording, Section 3 sets up a two-track scheme for establishing financial responsibility. Specifically, Section 3(a) requires each PVO <u>either</u> (1) to provide such ***information*** as the Commission may deem necessary to establish the PVO's financial responsibility, ***<u>or</u> in lieu thereof,*** (2) to provide ***a bond or other acceptable form of security.*** The disjunctive wording of

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24/ A detailed Chronology of events relating to the cruise industry, and the adoption and implementation of the Commission's Passenger Vessel Financial Responsibility Program, over the past 39 years is set forth as <u>RCL Exh. 12</u>, for the Commission's interest and convenient reference.

25/ 80 Stat. 1356, 1966 U.S. Code Congr. & Admin. News (80 Stat.) 1582-84, *codified, us amended,* at 46 U.S.C. App. 8 17d-e.

26/ Pub. L. 89-777, Section 3, 80 Stat. at 1357-58, *codified, as amended,* at 46 U.S.C. App. 817e. Section 2 of the Act requires PVOs to establish evidence of financial responsibility to pay judgments for personal injury or death of passengers. That Section is not addressed in these comments.

27/ As explained in H. Rep. No. 1089, 89th Congr., 1st Sess. (1965), "Unfortunately, the [ocean cruise] traffic [from U.S. ports] has attracted also a number of operators of questionable financial responsibility, operating aging vessels with lower safety and sanitary standards. This has resulted in several instances where scheduled cruises were suddenly cancelled by the cruise operators at the last moment. Passengers have been left on the dock, and have lost passage moneys which they have paid" *(id.,* at 2).

28/ As then FMC Chairman Admiral Harllee testified with respect to the original proposed version of the legislation, "H.R. 10327 . . . goes to the protection of the public from irresponsible charterers of ships. We do not think that either the American-flag lines, such as United States Lines or Grace, or the foreign lines like Cunard or Holland-America, need to submit any bonds, because there is no record of defaulting problems with them. To make them license themselves in the manner of financial defaulting would be clearly overregulation." *Coastwise Cruise Regulations: Hearings before the Subcomm. on Merchant Marine of the House Comm. on Merchant Marine & Fisheries, 89"* Congr., 1st Sess., at 70-71 (1965).

the title of Subsection (a), "Filing of ***Information <u>or</u> Bond*** with Commission," highlights this two-track scheme right up front (emphasis added). The text of Section 3(a) further confirms, and sets forth in greater detail, this dual-track scheme. Thus, Section 3(a), as presently codified, states as follows:

> "**(a) Filing of Information or Bond with Commission.** No person in the United States shall arrange, offer, advertise, or provide passage on a vessel having berth or stateroom accommodations for fifty or more passengers and which is to embark passengers at United States port without there first having been filed with the Federal Maritime Commission ***such information as the Commission may deem necessary to establish the financial responsibility of the person*** arranging, offering, advertising, or providing such transportation, ***<u>or</u> in lieu thereof*** a copy of ***a bond or other security,*** in such form as the Commission, by rule or regulation, may require and accept, for indemnification of passengers for nonperformance of the transportation." (46 U.S.C. App. 817e(a) (2002); emphasis added.)

The Act thus specifically contemplates a regime under which established, financially sound operators would be able to establish their financial responsibility ***solely*** through the submission of ***sufficient financial information***.[29/] This distinction has been recognized and acknowledged by the Commission. As stated by former FMC Commissioner Ivancie in his "Report to the Commission" in Fact Finding Investigation No. 19, "Congress envisioned two options," and "[b]onding appears to be a secondary option in the event that an operator is not financially secure." (Investigation -- *Passenger Vessel Financial Responsibility Requirements* (hereinafter *Fact Finding 19 [or "FF-19] Report"),* at 25 S.R.R. 1475, 1479 (April 11, 1991).)[30/]

There, thus, was absolutely no intent by Congress to require 100%, or dollar-for-dollar, coverage. To the extent that there may have been any potential confusion in this regard arising out of the original language of Section 3(b), such issue was definitively resolved in 1993 when Congress specifically amended Section 3(b) to strike the original ending language "and such bond or other security shall be in an amount paid equal to the estimated total revenue for the particular transportation."[31/] Indeed, during the Commission's January 30, 2002 Sunshine Meeting discussion, then-Chairman (now Commissioner) Creel specifically stated that this amendment

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29/ As explained in S. Rep. No. 1483, 89th Congr., 1st Sess., 1966 U.S. Code Congr. & Admin. News 4176, 4182, Section 3 "provides for the filing of evidence of financial security or in the alternative a copy of an acceptable bond or other security because many persons operating in the cruise business are responsible and maintain sufficient assets in this country which could be proceeded against."

30/ A copy of the *FF-19 Report* is set forth as <u>RCL Exh. 15</u> for the Commission's convenient reference.

31/ Pub. L. 103-206, Coast Guard Authorization Act of 1993, Section 320. Commissioner Ivancie acknowledged this interpretation issue in his *FF-19 Report,* but concluded, even before the Act was amended, that the plain language of the Act established two options, and that bonding was "a secondary option" for those operators who could not otherwise establish their financial responsibility (25 S.R.R. at 1479).

establishes the intent of Congress that, at least as to bonds, something less than 100% coverage would be sufficient (FMC 1/30/02 Meeting Tr. at 21).

B. <u>History of the Commission's Rule:</u>

In order to implement the Act, the Commission in 1967 promulgated the "Passenger Vessel Financial Responsibility" regulations, now set forth, as amended, in 46 C.F.R. Part 540 (32 Fed. Reg. 3986-91; 3/11/67).

While the Act authorized the Commission to find adequate evidence of financial responsibility based solely upon the submission of information, as discussed above, the Commission, with one exception (self-insurance), always has required some more concrete financial assurance. Specifically, from the outset the Commission's regulations have required every PVO to provide some monetary coverage. This coverage amount has been specified nominally as an amount no less than 110% of the PVO's highest UPR during the prior two years.

However, the Commission has ***never*** made this coverage obligation open-ended. Rather, "[t]he Commission has always interpreted Section 3 as mandating a reasonable ceiling on the size of the security required of a cruise operator" (*FF-19 Rpt*, 25 S.R.R. at 1479).[32/] After "studied judgment of the Commission's staff from data and information provided to it by various segments of the industry," the Commission initially established this ceiling at $5M in 1967.[33/] The Commission subsequently increased this ceiling to $10M in 1981, and most recently to the present $15M in 1991.[34/]

This ceiling in effect recognizes, consistent with the original statutory intent discussed above, the financial soundness and reduced risk presented by the larger, more established PVOs. Indeed, in rejecting an earlier proposal to eliminate the UPR coverage ceiling, the Commission expressly acknowledged that its records "support the contentions of the larger operators concerning their record of performance," and noted that "[t]he most recent passenger vessel failures have involved new or small operators."%'

32/ This ceiling is implemented in 46 C.F.R. §§ 540.5, 540.6(b) & 540.9(j).

33/ *See* Final Rule in Dkt 66-67 (General Order 20), 32 Fed. Reg. 3986 (3/11/67), *amended in other regards*, 32 Fed. Reg. 5457 (4/1/67).

34/ FMC Final Rule, Dkt 79-93, 45 Fed. Reg. 23428 (4/1/80); Final Rule, Dkt 90-01, 55 Fed. Reg. 34564 (8/23/90). These increases considered, but were not strictly governed by, the intervening increases in the CPI.

35/ FMC Final Rule in Dkt 90-01, published at 55 Fed. Reg. 34564 (Aug. 23, 1990).

The ceiling also ameliorates the harsh and unjustified financial burden and impact that would result from requiring full coverage by the larger, more established PVOs, without necessarily increasing the protection afforded consumers. As stated in *Fact Finding 19,* "The Commission has always interpreted Section 3 as mandating a reasonable ceiling on the size of the security required of a cruise operator. . . . The Commission has consistently interpreted the statute as requiring financial responsibility, not financial guaranty. The Commission has also recognized that a dollar-for-dollar bonding requirement would unnecessarily increase an operator's cost of doing business."[36/] However, the Commission recognized that this increased cost ultimately would be passed on to, and would be borne by, the passenger, but would not necessarily result in any increase in the individual passenger's protection.[37/]

C. Fact Finding Investigation 19:

Incident to the decision in 1990 to raise the UPR coverage cap to $15M, the Commission initiated Fact Finding Investigation 19 to study conditions in the cruise industry and determine whether changes should be made in the Commission's regulation of passenger vessel financial responsibility, and specifically whether the UPR coverage cap should be eliminated (55 Fed. Reg. 34610; 8/23/90).

After an extensive investigation, including public hearings as well as written comments, Commissioner Ivancie issued a detailed *Report* to the Commission (25 S.R.R. 1475 (RCL Exh. 15); 4/1 1/91). This *Report* noted the "spectacular" growth of the cruise industry from 0.5M passengers in 1970 to 3.7M in 1990, with an average growth rate of 10.3% since 1980 *(id.* at 1476). The *Report* further noted that there had been some consolidation in the industry, "making the industry somewhat more financially stable" *(id.* at 1477). While the *Report* noted that there had been a few cruise line bankruptcies over the years, "in all of these instances, the evidence of financial responsibility was sufficient to cover all passenger claims for nonperformance" *(id.* at 1477, 1486). The *Report* noted that when cruise lines cancel a sailing, they not only refund passenger deposits, but "go beyond what is legally required to make sure that their passengers are satisfied," and offer discounts on future cruises while honoring travel agent commissions *(id* at 1477).

The *Fact Finding 19 Report* highlights several pertinent points:

- Outstanding UPR in 1990 was in excess of $1 .OB, while existing coverage on file with the FMC amounted to $258M, leaving **more than *$750M in UPR*** uncovered (id. at 1486).

36/ *FF-19 Report* (RCL Exh. 15), *25* S.R.R. at 1479.

37/ *Id., 25* S.R.R. at 1480 ("Costs would be raised and the individual passenger's protection would not necessarily be increased").

- 65% of coverage was provided by ***P&I Clubs,*** which ***required an unconditional letter of credit from the PVOs to reimburse any losses*** (effectively requiring the PVOs to set-aside and tie-up the entire capital amount of the required coverage) (*id.* at **1476, 1480).**
- The FMC "has consistently interpreted the statute as requiring ***financial responsibility, not financial guaranty;"*** moreover, recognizing "that a ***dollar-for-dollar bonding requirement would unnecessarily increase an opera tor's cost of doing business,"*** the FMC has never required dollar-for-dollar coverage ***(id.*** at 1479; emphasis added).
- ***Travel interests opposed an increase*** in UPR coverage ***since*** "All ***costs*** of consumer protections systems ***are eventually paid by all consumers*** of the transportation product," ***and removal of the ceiling 'Would only increase prices without providing a meaningful increase in protection" (id.*** at 1482; emphasis added).

The ***Fact Finding-l*** 9 ***Report*** concluded that the ***UPR coverage ceiling should be retained (id.*** at 1486). As stated by the ***Report,*** "to require a dollar-for-dollar coverage . . . would be departing from [the Commission's] established policy with no reasonable justification. ***Costs would be raised and the individual passenger's protection would not necessarily be increased" (id.*** at 1479-80; emphasis added).

D. <u>The FMC's Determination to Retain the UPR Ceiling:</u>

The Commission subsequently invited comments on the ***Fact Finding 19 Report*** recommendations, including specifically the recommendation to retain the UPR coverage ceiling (Dkt. 91-32; 56 Fed. Reg. 40586; 8/1 5/91). After thorough consideration of the submitted comments, the Commission determined to retain the ceiling (57 Fed. Reg. 19097; 5/4/92).

The Commission subsequently revisited the ceiling issue in Dkt 94-06 (59 Fed. Reg. 15 149 (3/3 1/94); 61 Fed. Reg. 33509 (6/26/96)). However, the Commission stepped back from such efforts because "The Commission was not aware of any instance in which passengers had lost funds as a result of cruise line bankruptcies or other failures to perform, and the economy and the cruise industry were thriving. The risk of nonperformance appeared minimal." (67 Fed. Reg. at 66353).

In July 2002, the Commission eliminated the self-insurance exception, in response to the problems brought to light by the AMCV failure and bankruptcy. See Final Rule in FMC Dkt 02-***07 (67*** Fed. Reg. 44774; 7/5/02).

E. Today's Modern Cruise Industry:

Much of what was written about the cruise industry in the *Fact Finding 19 Report* twelve years ago is equally, if not more so, true today, except for some needed updating as to the numbers and noted trends.

Most importantly, the industry has continued its "spectacular growth," not only in numbers of passengers carried, but also in terms of the number, size, amenities and efficiency of vessels, the geographic reach *of* home ports and ports of call, and the breadth of population demographics now attracted to cruising. Specifically:

- the industry has more than doubled from 3.7M passengers in 1990, to more than 7.6M North American market passengers in 2002.[38/]
- the number of passenger ships has grown from 123 in 1990 (25 S.R.R. at 1476) to 175 participating in the Commission's Section 3 program as of 2/6/03 (see RCL Exh. 8).
- the new ships that have been introduced over the past ten years are considerably larger, more luxurious, and more efficient cost-wise, and, in many instances, are "destinations" in and of themselves;
- in the aftermath of 9/1 1, the industry has significantly expanded its geographic reach, and now homeports vessels at ports along the entire reach of all three U.S. coastal ranges, opening-up new "drive-and-cruise" markets and increasing cruise access and choices for all Americans (see RCL Exhs 10.A & B, RCL0107-09 & RCL01 11);
- moreover, the efficiency of the new vessels, as well as tight cost controls and centralized purchasing, have enabled the industry to lower prices, making cruising more affordable and facilitating cruising's move into mainstream America's economic reach and vacation planning spending; cruising is no longer the preserve of the rich and elderly.

The cruise industry has amply demonstrated its resilience, ingenuity and steadfastness over the past several years, as the industry has weathered and bounced back from economic downturn, the horrific events of 9/1 1 and subsequent air traffic system shutdown, the adverse Norwalk virus publicity last Fall, and recent events in the Middle East. Indeed, while other travel industry segments have sought Government bail-outs, the cruise industry has helped itself. The industry repositioned ships into new markets, restructured itineraries, introduced new vessels, increased promotional advertising, and reduced prices. As a result, and, in close partnership with the thousands of travel agents around the country who now specialize in cruise vacations, the industry

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38/ *Compare FF-19 Report* (RCL Exh. 15), 25 S.R.R. at 1476 (RCL0133), *with* RCL Exh. 9.C., at RCL0105.

set new records in terms of passengers carried each of the past three years. Incredibly, notwithstanding all the foregoing issues, North American market passenger count last year reached a record 7.6M, up almost 10% from the 2001 record of 6.9+M, with average industry utilization of 97%.[39/]

Indeed, not only has the cruise industry survived, it has, in the process, set the stage for future growth. The repositioning of ships to new ports has identified a vast new, drive-and-cruise market demand, which will drive industry growth for years to come. Moreover, the lower costs have attracted a whole new, and broader, generation of cruising passengers, who will further fuel future growth.

Contributing to the industry's success over the past few years has been the continuing consolidation of the industry, which was noted by Commissioner Ivancie as "making the industry somewhat more financially stable" (25 S.R.R. at 1477). As detailed in the accompanying Dibner Report, the industry today centers around four major PVOs – Carnival, RCL, NCL and Disney – which between them account for some 96-97% of all U.S. port passenger departures.@' These four PVOs have a combined net worth of almost $40B. All are publicly-traded companies. All publicly report their financial results, and are subject to public disclosure requirements. Their size and financial strength will enable these companies to weather the inevitable market vagaries, as evidenced by their ability to respond so nimbly and effectively to the blows of the last two years.

Of course, as noted in the NPRM, not everyone did as well or prospered during the past few years. A number of small lines, primarily in the so-called "budget" segment of the market, failed and ceased operations. However, as explained in the accompanying Dibner Report, the characteristics and business plans of these failed operators stand in stark contrast to those of the major PVOs, and the failure of these operators does ***not*** suggest similar problems for the large PVOs.[41/] Indeed, much of the problem for the failed operators was their inability to compete with the new, modern, and efficient vessels being introduced by the major PVOs and offering more pizzazz and excitement for the same or lower cost.[42/] It is telling that three of the failures occurred

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[39/] *See* RCL Exh. 9.C, at RCL0105. Worldwide cruise passenger count on CLIA-member line ships was up an even more impressive 15.5%, to 8.66M passengers (id.)

[40/] *See* Dibner Report Part II.A ("Defining the Current Cruise Industry Structure – Structure and Financial Condition of the Major Cruise Lines"), at 9-11: RCL Exh. 1 (RCL), Exh. 4 (CCL), Exh. 5 (NCL) & Exh. 6 (Disney).

[41/] *See* Dibner Report Part II.B ("Recent Cruise Industry Failures – Causes and Context") at 11-15, and Apps 4 & 5.

[42/] For example, Cape Canaveral Cruise Line's announcement of the line's shut-down specifically cited Carnival's decision to homeport a new vessel at the Port of Cape Canaveral, joining one RCL, one NCL and two Disney ships already operating at that port (Dibner Rpt App. 5, at 18). In addition, and as detailed in the Dibner Report, each of the failed lines also had its own unique problems which contributed to their respective failures (*id.* App. 5, at 16-25).

in the latter part of CYOO – long before the events of 9/1 1 – and during a time that the industry as a whole was enjoying a record year of profitability.

In short, the cruise industry is financially much stronger today than it was when the *Fact Finding 19 Report* was issued. The undercapitalized players are gone. Even though they had minimal assets, they did not leave a trail of lost customer deposits. Their antiquated vessels have now been repositioned outside the U.S. market or relegated to the scrap heap.

Other observations in the *Fact Finding 19 Report* remain valid today, including the findings as to the major PVOs' focus on customer satisfaction and resulting generous cruise cancellation policies,[43/] and the role of P&I Clubs in providing Section 3 coverage for many PVOs, and the fact that the P&I Clubs require full guarantees for such coverage.[44/]

F. <u>RCL and Its Interest in this Proceeding:</u>

RCL was founded in 1969, and is today the second largest cruise company in the world, accounting for some 27% of all U.S. passenger departures. RCL's history is set forth in <u>RCL Exh. 1.C</u>, and highlights the major role that RCL has played in the development of today's modern cruise industry. Key events include:

- the introduction in 1970 of the first passenger ship (the *Song* of *Norway)* built specifically for warm weather cruising, rather than point-to-point transport;
- pioneered the concept of air/sea vacations, flying cruise guests to Miami from all over North America;
- introduced new services, including on-board fitness programs, amenities, and developed exclusive destination ports of call;
- introduced successive generations of new, larger vessels, with startling new features, culminating in the 1999 entry into service of the first of RCL's four Eagle-Class vessels, the *Voyager* of *the Seas* – the largest cruise ships ever built, at 1,020' in length, 138,000 tons, a passenger capacity of 3,114, and complete with a rock-climbing wall, full-size basketball court and ice-skating rink, in addition to numerous swimming pools, restaurants, lounges and shopping areas (see <u>RCL Exhs 1 .A & 2.B-D</u>); and

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43/ *FF-19 Report* (<u>RCL Exh. 15</u>), 25 S.R.R. at 1477; *compare* <u>RCL Exhs 3.A & B.</u>

44/ *FF-19 Report* (<u>RCL Exh. 15</u>), 25 S.R.R. at 1480.

- introduced new, clean and efficient ship propulsion systems, including gas turbine engines on the Vantage Class vessels, and an environmental friendly advanced water purification and cleaning system.

RCL today operates two brands – Royal Caribbean International ("RCI"), the world's largest cruise brand, and Celebrity Cruises ("CC") -- both of which are enrolled in the Commission's Section 3 program. RCL operates 25 modern, state-of-the art vessels, averaging 6 years of age, with the capacity to carry a total of 60,794 passengers, and representing an investment in excess of $10B (see RCL Exhs 2.A-G). RCL presently has three additional new ships on order, two of which are scheduled for delivery later this year, and the third of which is scheduled to be delivered next year.

Last year RCL carried 2,768,475 guests. This represented a 13.5% increase over the prior year (RCL Exh. 1 .E, at RCLOOl 1). RCL's occupancy percentage in 2002 was 104.5% (*id.*).[45/] Notwithstanding the very difficult environment in the first quarter of this year, RCL's passenger cruise days count was up 9.2%, and occupancy was at 101.7% (see RCL Exh. 1 .F, at RCL0017C).

RCL's financial performance and strength is set forth in the company's public financial statements (see RCL Exhs l.E & F). Last year RCL achieved record revenues of $3.43B, net income of $35 1 M, and earnings per share of $1.79 (RCL Exh. 1 .E, at RCLOOl 0). Of particular pertinence to this proceeding, RCL's total customer deposits, as of 12/31/02, were $567,955M *(id* at RCL0013).[46/] Against this number, RCL had total shareholder equity of $4.035B *(id.* at RCLOOl 0)more than seven times the amount of the customer deposits.

Notwithstanding the very difficult operating environment in the first quarter of this year, RCL had revenues of $880.2M (up 10% from 1Q02), net income of $53.2M, and earnings of $0.27/share (RCL Exh. 1 .F). Net yields increased 3.9% from the prior year period.

In short, RCL is financially strong, and doing well in a difficult environment. At the same time, due in part to large ongoing capital investment expenditures in new vessels, RCL's cash position at year-end was only $242.6M, down from $727.2M a year earlier (RCL Exh. 1.E).[47/]

45/ As explained in the Dibner Report, the industry measures occupancy based on lower berths, and does not include upper berth capacity in the same cabins, which can lead to greater than 100% lower berthoccupancy data. *See* Dibner Rpt 14 n.13.

46/ This number represents all customer deposits, and is broader than UPR, which is limited by the definition thereof, and excludes, among other things, foreign departures, airfare and land-based excursions.

47/ RCL recently negotiated a new $500M unsecured revolving credit facility, for a term of five years, bearing interest at LIBOR plus 1.75%. RCL also just successfully completed a $250M public offering of Senior Notes due 2010, priced to yield 8-1/8%, to be used for general corporate purposes including capital expenditures. *See* RCL Press Releases dated March 27, 2003 and May 6, 2003 respectively.

RCL has previously committed further capital expenditures of $1 .1B this year, $500M next year, and $100M in 2005.

Under these circumstances, the proposed elimination of the ceiling could have substantial adverse consequences upon RCL's financial condition, and would grind to a halt any plans for future growth and expansion. This would adversely impact RCL's competitive market position, vis-a-vis its top two competitors, both of which are embarked upon substantial capacity expansions.“/ Moreover, the proposal would reduce competition in the marketplace and consumer choices, while pushing up the cost of cruising and making it harder to fill ships in difficult economic and political times.

G. <u>Current Section 3 Program Parameters</u>

The latest provided FMC data indicates that, as of February 6, 2003, there were 44 cruise lines (brands), operating 175 vessels, in the FMC Section 3 program (<u>RCL Exh. 8</u>). Total UPR as of 2/6/03 was $2,238,636,042. Of this amount, approximately $302M was “covered” under the Section 3 program as of 9/18/02. This leaves a balance of approximately $1.9B uncovered.

According to the FMC Staff at the January 30, 2002 Commission meeting, “roughly one-half of the operators in our program have unearned passenger revenue figures that exceed the [current] $15 million [ceiling]” (Tr. at 10). The FMC has declined to make available UPR information by brand. However, it reasonably can be assumed that the vast majority of the uncovered UPR is allocable to the four major PVO's in view of their dominant share of North American port passenger departures.

<u>DISCUSSION</u>

I. <u>The Proposed UPR Ceiling Elimination and Its Potential Impacts:</u>

The NPRM proposes “to ***eliminate the ceiling*** on [UPR] coverage requirements, and to ***require coverage based on the total amount of UPR for all PVOs***” *(67* Fed. Reg. at 66353; emphasis added). For those large carriers “whose fleets consistently have outstanding UPR in the hundreds of millions of dollars” *(id.),* this will result in coverage increases in the ***thousands*** of percent. The NPRM recognizes that “this [increased coverage] could be costly to many in the industry,” and specifically acknowledges ***“the tremendous cost and difficulty that may be faced by some PVOs in covering all UPR*** (as currently defined)” (id.; emphasis added).

48/ *See* <u>RCL Exh. 4.D</u> at RCL0054, indicating that Carnival is projecting a 42.3% expansion in berths over the next several years, and <u>RCL Exh. 5. D</u>, at RCL0078, discussing NCL's expansion plans.

However, while generically referring to this "tremendous cost and difficulty," the NPRM does not elaborate as to either such "cost" or "difficulty." It therefore is not clear that the Commission understands either the difficulty or the costs involved. During the Commission's October 23, 2002 Sunshine meeting the Staff suggested that this was simply a matter of paying a l-to-2% surety bond fee, although the Staff did note that there might be some "collateral requirements" (FMC 10/23/02 mtg. Tr. at 12). The Staffs comment erroneously assumes that such coverage is readily available, and fails to convey the impact of the referenced collateral requirements.

Importantly, we are not talking here about a $5M coverage increase, such as the increase that the Commission imposed on the industry increasing the ceiling from $5M to $10M in 1982, and again from $1 OM to $15M in 1991. As the Commission recognized in 1990, even a $5M increase is a substantial burden for cruise lines, since "[clash flows are needed to meet operating expenses and other operational commitments to service debt and are, therefore, not readily accumulated in the short term" (Dkt 90-01, Final Rule; 55 Fed. Reg. 34564; Aug. 23, 1990).[49] The Commission therefore provided a ***six-month transition period*** before implementing the $5M ceiling increase (*id.*).[50]

Here, in contrast, for those PVOs that "consistently have outstanding UPR in the hundreds of millions of dollars" (67 Fed. Reg. at 66353), the NPRM is now talking about imposing a many-fold increase -- in the *thousands* of percent range -- in the amount that would be required to be covered. For example, a PVO having UPR (as defined today) of $350M, of which 20% might qualify as EPR, would be required to provide coverage in the amount of $3 1 5M[51] – a $300M, or 20-fold (*2000%*)increase in coverage versus the $15M required under the present ceiling. This effectively is equivalent to requiring a single PVO to reserve and set-aside the entire amount that it would cost to buy one (or with financing two or three) large, new cruise ships.[52] Only here,

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49/ As Commissioner Ivancie pointed *out in* his *FF-19 Final Report,* PVOs "must make a number of purchases for such matters as airline tickets, hotel rooms, rental cars, food, fuel and other supplies . . . [which] are paid in advance of a sailing," and "it is the industry's practice to use . . . [advance passenger payment funds] as working capital" *(id,* 25 S.R.R. at 1477; RCL Exh. 15, at RCL0134). Commissioner Ivancie also stated that "[i]t is more advantageous for the industry to pay down capital loans and lines of credit, than to deposit funds to earn interest" *(id).* This last statement is even more true in today's low interest-paying environment.

50/ Significantly, the NPRM says nothing about any phase-in or transition period for implementing the Proposed Rule. This conspicuous omission further suggests that the Commission does not appreciate the full effect and impacts of the Proposed Rule.

51/ This amount is achieved by subtracting the $70M EPR from the gross $350M UPR, which results in a difference of $280M, and then adding the proposed fixed 10% surcharge on the $350M gross UPR – i.e., $35M – to get $3 15M. Please note that the 20% used for EPR is merely for demonstration purposes, and should not be taken to suggest that such percentage is a likely or realistic estimate of any PVO's actual EPR.

52/ Carnival Corp.'s quarterly report (Form 10-Q) for the quarter ending August 3 1, 2002, lists the estimated cost of the 2,114 passenger *Costa Mediterranea,* which is presently under construction at Masa-Yards for delivery to Costa Cruises in June 2003, as $355M *(id.* at 7).

instead of generating revenue, jobs and flow-down economic benefits for the economy,[53/] the money would be sitting idle, earning virtually nothing, while encumbering the PVO's credit-worthiness and ability to borrow funds for other productive purposes.

The first problem is just obtaining the proposed increased coverage. As numerous comments submitted on this issue in the past have made clear, there simply is no available source of bond or guarantee coverage in the huge amounts contemplated by the Proposed Rule, and certainly not without having to fully counter-guarantee the same. As comments already submitted in this and prior proceedings by the International Group of P&I Clubs ("P&I Clubs") make clear, the ***P&I Clubs are not willing to underwrite additional Section*** 3 ***coverage.***[54/] Thus, the P&I Clubs state that they have provided such coverage in the past only as an accommodation to their members. The P&I Club further note that they require 100% collateral, either through a letter of credit or other bank counter-guarantee.[55/]

Similarly, the Surety Association of America ("Surety Association" or "SAA") previously has advised the Commission as to the limited capacity availability to write such guarantees, which "are classified as financial guarantee obligations" and "considered by surety companies to be ***extremely hazardous obligations*** and are ***underwritten very carefully***."[56/] The Surety Association specifically pointed out in Dkt 94-06 that "the market for PVO bonds is very limited" (SAA 8/15/96 Ltr, at 2). Importantly, the Surety Association emphasized "that the larger the bond amount required, the stricter the underwriting requirements and more difficult it becomes to qualify for the bond" ***(id.).*** The Surety Association stated its "doubt that many existing PVOs

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53/ In 2001 the cruise industry's contribution to the U.S. economy consisted of $11 billion in direct spending by cruise lines and their passengers. Including indirect economic benefits, this direct spending in turn generated $20 billion in U.S. industrial output, producing more than 267,700 jobs throughout the country paying a total of $9.7 billion in wages and salaries. *See* Business Research & Economic Advisors, "The Cruise Industry: A Partner in North America's Economic Growth," prepared for the International Council of Cruise Lines (Aug. 2002), at 1-4 a summary of which is set forth as RCL Exh. 11, at RCL0114.

54/ As the Commission noted last summer in reviewing the comments received in Docket 02-07, the P&I Clubs made "clear that its members would ***not*** be willing to increase their current involvement" in providing security under the Section 3 nonperformance program (FMC Dkt 02-07, Final Rule, 67 Fed. Reg. at 44775; July 5, 2002; emphasis added).

55/ *See* P&I Club Comments dated April 7, 2003, at 1 ("non-performance . . . is **not** a risk covered by Clubs The Sec. 3 Guaranties have accordingly been provided by the individual Clubs to their Members as a service, and ***only when the Clubs' Guaranty is fully secured by a Bank counter-guarantee. . . .*** we do not believe the Club Boards will agree to providing guaranties at the level proposed in the Notice of Proposed Rulemaking"); *see also FF-19 Rpt, 25* S.R.R. at 1480, (RCL Exh. 15, RCL0137), confirming this as the long-standing position and practice of the P&I Clubs.

56/ *See* SAA's July 3, 1997 response to the FMC Staff's June 27, 1997 inquiry letter regarding Dkt 94-06 (emphasis added). Importantly, SAA's comments and reservations were made long prior to the events of 9/11, which have substantially tightened risk assurance availability.

would be able to immediately qualify for the higher bond amounts," and cautioned that "[t]he end result could be a severe lack of availability of bonds for PVOs which could compel some PVOs to seek other forms of security, or to leave the business" *(id).*

This limited coverage availability, and the associated high underwriting requirements for any available coverage – essentially requiring dollar-for-dollar backing -- means that the only real option for coverage in the proposed large amounts would be escrow accounts. The costs of such accounts are two-fold:

First, there is the ***out-of-pocket annual cost*** of ***the value*** of ***the money*** sitting in the account. Such funds effectively must be borrowed at current borrowing interest rates, and then placed into extremely low interest-bearing accounts to provide the required surety. The differential in interest paid on the borrowings and what can be earned on the deposits – likely some **7-8% --** is the annual cost of this requirement.[57/] If coverage is required for 110% of the total FMC-reported $2.24B in PVO UPR, this would implicate total coverage of $2.464B. At an average 7 1/2%, this would cost the industry ***some $328.5M per year.***

Second, and far more critical and costly, is the ***substantial impairment of the PVOs' liquidity and the lost investment opportunity costs*** entailed in diverting such huge amounts of capital from productive business purposes and essentially parking it in wholly unproductive escrow accounts. This would require PVOs to grind new vessel building programs and expansion plans to a halt, adversely impacting future industry growth and the competitive landscape.

In view of the stated consumer protection purposes of the present proceeding, it is important to note that ultimately it is the consumer that will have to pay the higher costs imposed by the proposed requirement. Moreover, it is the consumer that will face more limited travel options, less competition and choice, if the proposal is implemented.

Tellingly, the American Society of Travel Agents ("ASTA") submitted comments in FMC Dkt 90-01, specifically opposing an earlier FMC proposal to do away with the UPR ceiling. ASTA stated that an "unlimited funding requirement . . . ***would only increase prices without providing a meaningful increase in protection***."[58/] ASTA stated that while it is ASTA's policy to generally support consumer protection systems, it does so only where "the protection is

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[57/] RCL recently went to the capital markets with a $250M Senior Notes offering, due in approximately 7 years. This offering was priced to yield 8-1/8% (see RCL Press Release dated May 6, 2003). This represents a reasonable current cost of borrowing for RCL. Current money market rates are running in the range of 0.35%, although it is possible one might be able to obtain a somewhat better yield on accounts of the contemplated size. However, the bottom line differential is likely to be in the 7-1/2% - 7-3/4% range.

[58/] *See* ASTA's April 4, 1990 submission in FMC Dkt 90-01 (emphasis added), discussed and quoted in *FF-19 Final Report;* 25 S.R.R. at 1482 (RCL Exh. 15, at RCL0139).

commensurate with the risk," so that the consumer, who ultimately must pay for it, is not burdened by "unnecessary costs" *(id.).*

While there perhaps could be some circumstances where such higher costs, and other adverse impacts, might nevertheless be worth imposing, this is clearly not one of them, as the past 36+ years of experience well establishes. Indeed, the vast majority of passengers who use their credit card do not need the coverage at all, and certainly would be unlikely to be willing to pay for such redundant coverage if provided the option. Similarly, passengers who have obtained broader coverage through available third-party insurance would not want to also have to pay the costs of this coverage.

As discussed at the outset, passengers have ample choices to protect their own interests. Under such circumstances, there is little justification for the Government to take it upon itself to impose additional protections and costs.

Neither the statute nor the Commission's mandate thereunder requires such an approach. Moreover, there is no groundswell of public outcry or demand to change a system that has worked well and achieved its purposes for more than 36 years.

Importantly, despite the huge costs of the proposed change, earlier implementation thereof would not have resulted in any greater recovery by Section 3-covered passengers over the years. Moreover, given the strength of today's cruise industry and the major PVOs, it is highly unlikely that this result will be any different in the future. However, the proposal threatens to destroy the industry in the process.[59]

The bottom line is that, while understandable under the perceived circumstances reflected in the NPRM (which are discussed in detail in Part III below), the proposed elimination of the ceiling is a bad idea that would choke the industry and threaten irreparable harm, for absolutely no benefit to the consumer.

RCL respectfully reiterates its request urging that the Commission undertake a careful cost/benefit analysis that considers all the implications and impacts of the Proposed Rule, before making any decision to go forward with the subject proposals.[60]

Such a cost/benefit analysis is particularly important here because it is readily apparent from the NPRM that the Proposed Rule does absolutely nothing to solve the only real problem identified in the NPRM. Indeed, that problem already has been eliminated. Thus, the NPRM cites

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[59] The Dibner Report provides extensive information concerning the extraordinarily high costs of the proposed rule, as well as the lack of a significant benefit to consumers should the rule be adopted. That information generally is not repeated in these comments.

[60] *See* RCL's 12/2/02 Rulemaking Regulatory Cmts at 11-14.

the fact that "five cruise lines that participated in the Commission's program have ceased operations" since September 2000 (67 Fed. Reg. at 66353). However, the NPRM identifies only one of the five lines as possibly resulting in passengers not being fully reimbursed out of carrier assets, existing UPR coverage or FCBA coverage. That single line was American Classic Voyages ("AMCV"), which "had evidenced its financial responsibility by means of self-insurance" *(id).* However, as the NPRM acknowledges, that problem already has been solved by the FMC's elimination last summer of the self-insurance alternative for UPR coverage.[61] Moreover, as discussed in RCL's recent 5/27/03 comments on the outcome of the AMCV bankruptcy liquidation proceedings, it now appears that the AMCV passengers also will get back their monies.

This outcome simply reinforces the stark discrepancy between the certain high costs and adverse impacts of the proposed elimination of the ceiling vs. the hypothetical, but totally insubstantial and unreal, nominal consumer protection benefits sought to be advanced.@'

II. <u>The Proposed Treatment of EPR:</u>

In a stated attempt to partially ameliorate the perceived adverse impact of the proposed increased coverage requirement, and at least avoid the extra costs of double-covering UPR amounts that are subject to the consumer protection provisions of the Fair Credit Billing Act ("FCBA") (15 U.S.C. §§ 1666-1666j), the Proposed Rule proposes to except from UPR those passenger revenues received from credit card charges made within 60 days of sailing ("Excepted Passenger Revenues" or "EPR") (67 Fed. Reg. at 66353-54). Thus, to prove financial responsibility under the Proposed Rule, a PVO would have to give the FMC a surety bond or a guarantee, or escrow, the full amount of the PVO's highest UPR less EPR in the prior two years, **<u>plus</u>** a fixed ten percent surcharge on the amount of such peak UPR unadjusted by EPR.[63]

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[61] *Id.,* 67 Fed. Reg. at 66353 ("Self-insurance is a coverage option that no longer is permitted"). *See* Docket No. 02-07, *Financial Responsibility Requirements for Nonperformance of Transportation-Discontinuance of Self-Insurance and the Sliding Scale, and Guarantor Limitations,* 67 Fed. Reg. 44774 (July 5, 2002).

[62] The NPRM also notes that certain passenger vessel interests suggested last summer, in Dkt 02-07, that smaller operators may be at a competitive disadvantage vis-à-vis larger operators by having to bond all of their outstanding UPR under the present rule (67 Fed. Reg. at 66353). Such issue warrants no consideration in this proceeding. First, such consideration is not contemplated by either the statute or the implementing regulations. Second, and conversely to the stated position, the statute and regulations have always contemplated and implemented disparate treatment between the larger, more financially sound carriers which could establish financial responsibility through information or other means, and the smaller carriers, against which the statute was primarily directed, who have always been required to post financial coverage up to the ceiling. Third, the same rule applies to all, and as smaller carriers grow, they will be eligible for and enjoy the benefits of the ceiling. Finally, and perhaps most tellingly, this argument has little to do with consumer protection, and would simply impose higher costs on the large carriers and consumers, without reducing any burden on the smaller carriers.

[63] 67 Fed. Reg. at 66354-55 & 66357-58 (proposed new 46 C.F.R. §§ 540.5 & 540.6(b)). The NPRM characterizes the additional 10% as a minimum. However, the NPRM's implementation methodology converts it into a surcharge, which effectively further increases the total proposed coverage requirement to ***110% of peak UPR.***

While eminently reasonable to avoid double coverage, the exclusion of the identified credit card charges threatens to disrupt existing commercial relationships between PVOs and credit card companies, to the potential significant detriment of the consumer who wants to use credit cards to pay for cruising. Moreover, the proposal does little to reduce the immense increased financial burden that the Proposed Rule would impose on the larger PVOs. In addition, the creation of a new category of information that must be tracked – EPR – imposes new information gathering and reporting requirements, the mechanics and full impacts of which have yet even to be ascertained, much less considered, by the Commission. Moreover, the impact of these proposed changes may not be limited, as the NPRM appears to assume, just to the PVOs. Thus, tracking EPR may also implicate and involve in the required new information gathering and reporting process the many thousands of individual travel agencies selling cruises. These travel agencies also could be adversely impacted, and find that their booking commission payments have to be delayed, if the Commission requires full UPR coverage of such amounts, until performance is rendered and complete.

Specifically, the NPRM proposes to exclude certain passenger deposits made by credit card from the coverage requirement. In particular, deposits made by credit card within 60 days of the scheduled departure of the cruise would be excepted from the required UPR coverage. The Commission has long recognized and pointed out the valuable role of available credit card protections in protecting passenger deposits. Thus, the Commission's "Notice to Cruise Passengers" expressly encourages ticket purchasers "to consider paying for their tickets with a major credit card." Moreover, in dealing with passenger vessel financial responsibility issues in connection with past failures, the Commission has routinely recommended that cruise passengers who paid by credit card immediately notify their credit card company of the failure. See, e.g., FMC Press Release Nos. 00-l 3 & 00-l 5, dated 9/1 5/00 & 9/22/00 respectively (Premier), and FMC Press Release No. 01 - 11, dated 1 O/l 9/0 1 (AMCV).

The present proceeding is the first time, however, that the Commission has proposed going beyond taking "administrative notice" of this general fact,@' and now proposes to attempt to account precisely for EPR in determining the amount of the coverage requirement. Two reasons are offered for taking this approach. First, the Commission recognized that eliminating the coverage ceiling would impose "tremendous" costs on the MCLs, and that excepting certain credit card deposits out of the coverage requirement would soften the blow to some extent. Secondly, the Commission noted that passenger protection would not be diminished by excluding certain credit card deposits, since passengers paying by credit card have the right in such circumstances to recover their deposits from the credit card company.

64/ "The principal of official notice permits an agency to take cognizance of facts similar to those of which a court could take judicial notice. Additionally, administrative agencies are permitted to take notice of generalized facts within their areas of expertise." 4-25 ADMINISTRATIVE LAW § 25.01 (LEXIS 2003).

RCL very much appreciates the Commission's thoughtful proposal concerning credit card deposits. RCL specifically agrees that requiring a PVO to cover certain deposits made by credit card would, as a practical matter, result in redundant and wasteful coverage, at the consumer's expense. The FCBA requires credit card issuers to honor certain claims made by their customers against a bankrupt cruise line (like any other bankrupt vendor), and entitles customers to recover their deposits.

The Commission therefore properly has taken general administrative notice, both in the rulemaking context and in advising the cruising public following a PVO failure, as to the possibility that cruise passengers may be able to avoid losing their deposits by using a credit card and submitting timely claims to their credit card issuers. However, the proposal to take this very relevant concept to the next step -- from being one among a number of general facts that the Commission must consider, to specifically folding certain credit deposits into the UPR formula -- may cross a line into interfering with commercial relationships that it is neither necessary nor desirable to cross.

In this regard, it is one thing for a government agency to take notice of the fact that the FCBA provides consumer protection in certain circumstances. However, it is another thing altogether for the agency to incorporate such protections into a formula and publish the results in official regulations concerning that agency's responsibilities. Such a step raises potential legal issues that may affect the Commission, other government agencies, credit card issuers, PVOs and consumers. It may strain relations between credit card issuers and the PVOs, who instead of seeking to facilitate the growth and expansion of the cruise industry, may be forced to focus otherwise unnecessary attention on their respective rights and liabilities under the FMC's rules. Changes in the rules of other agencies, or in commercial practices in the consumer credit industry, may force further changes to the FMC's approach.

Moreover, cranking credit card deposits into the coverage formula would impose a very substantial new burden upon PVOs, the travel agents and others with whom they work, and possibly even the credit card companies and the Commission itself, to track and account for credit card deposits. Current business and accounting practices within RCL (and we suspect the other major PVOs) are not configured to capture information concerning what is or is not EPR or an FCBA-covered credit card deposit. Travel agencies, which are the front line sales and transactional interface between RCL and most of its customers, certainly are not so equipped. It would be very challenging at best to develop systems that could consider all of the relevant variables.

Finally, the Commission's definition as to the scope of legal protection afforded under the FCBA is not correct. On the one hand, FCBA protection is substantially broader than the Proposed Rule's EPR definition. Proposed Section 540.2 would define "EPR" as only encompassing customer payments made "within 60 days of the date the passenger is scheduled to embark." Note that this specified definition runs backwards from the date of the booked cruise. The FCBA runs the other way, and provides protection for payments made within 60 days after the customer's receipt of the billing statement containing the questioned charge. Moreover, FCBA coverage generally is triggered at the time the merchant declares bankruptcy, which may precede by weeks or months the date of embarkation (which is the time of the bankrupt merchant's failure to render promised services).[65/] Assuming that credit card charges are spread evenly throughout the month, and are made an average of 15 days before the billing statement is received, the applicable period should be 20% longer (from 60 to 75 days) than what the NPRM proposes, and should work in reverse from the date of the charge. In short, if FCBA coverage is to be used in a formulaic manner, full recognition of the legal coverage afforded under the FCBA would dramatically expand the universe of claims that should be excepted under the Commission's rules.[66/]

On the other hand, credit card issuers have several potential defenses to claimed FCBA offsets. Each FCBA claim potentially triggers a detailed factual investigation, and legal arguments that may ultimately absolve the credit card issuer of liability. Credit card issuers may well be concerned that their rights to defend against such claims could be compromised by the FMC's proposal, and in any event, that consumers may not be as uniformly protected as is assumed in the FMC's oversimplified treatment of the issue.

For all of these reasons, the Commission's proposal to except credit card deposits out of the UPR coverage requirement simply is not up to the task of ameliorating the tremendous costs on the industry and the cruising public that would result from eliminating the UPR ceiling. While the Commission is correct in recognizing the effects of FCBA coverage on the cruise industry, and while such coverage generally is appropriate "information" to consider in demonstrating cruise line financial responsibility, incorporating it into the rule as proposed raises unnecessary and complex issues, and dramatically increases the administrative burden on the industry. By withdrawing its proposal to eliminate the UPR ceiling, the Commission can also resolve these concerns.

III. There Are No Changed Circumstances that Justify the NPRM Proposals:

It is well-recognized that an agency may not depart from consistent past interpretation and practice without good cause and well-reasoned analysis. *See, e.g., Motor Vehicle Manufacturers Association v. State Farm Mutual Automobile Ins. Co., 463* U.S. 29, 42 (1983) ("an agency changing its course . . . is obligated to supply a reasoned analysis for the change"); see *also*

65/ *See* Official Comments to Regulation Z, Section 226.12(c) (noting that the consumer is not required to file a claim against a merchant in bankruptcy proceedings).

66/ By simply aligning the 60-day EPR cut-off date with the date of the charge, rather than the scheduled date of departure, the universe of credit card charges for RCL cruises that would be within EPR nearly triples, to more than 50% of UPR. Further, we understand that many credit card issuers voluntarily provide extended coverage to their customers for various reasons. While there may be no legal right to this extended coverage, it could, as a practical matter, expand the universe to 75% or more of RCL's UPR.

Greater Boston Television Corp. v. FCC, 444 F.2 841, *852* (D.C. Cir.), *cert. denied, 403* U.S. **923** (1971) ("an agency changing its course must supply a reasoned analysis indicating that prior policies and standards are being deliberately changed, not casually ignored").

Here, there simply are no changed circumstances or other valid reasons identified in the NPRM for either the proposed elimination of the UPR coverage ceiling or the imposition of the proposed mandatory ADR proceedings. The NPRM suggests that there has been "a dramatic shift" in the prior scenario, and mentions several different "indicator[s] of concern" that apparently are driving the proposal to eliminate the UPR ceiling (67 Fed. Reg. at 66353). Each of the identified "indicator[s] of concern" will be addressed in turn. As will be demonstrated, none comes remotely close to justifying the proposed actions.

A. The Cited Cruise Line Failures:

The principal factor apparently driving the NPRM is the cited recent cruise line failures – five PVO's that participated in the FMC program (Premier Cruise Operations Ltd. ("Premier"), New Commodore Cruise Lines, Inc. ("Commodore"), Cape Canaveral Cruise Lines, Inc. ("Canaveral Cruise"), MP Ferrymar, Inc. ("Ferrymar") and AMCV), and two other carriers having only foreign departures and thus outside the FMC program (Renaissance Cruises, Inc. ("Renaissance") and Great Lakes Cruises, Inc. ("Great Lakes Cruises")). (67 Fed. Reg. at 66353.)[67/]

The NPRM suggests that these failures were due to changed economic circumstances in the industry, and reflects a fear that such failures may be a harbinger of worst disasters to come. As demonstrated in the accompanying Dibner Report, such suggestion and fears are both wrong. These failures were due primarily to the failed business strategies and specific circumstances of each respective cruise line. While there are a number of similarities among several of the failed lines, these considerations do not apply to most of the remaining PVOs, and certainly not to the large PVOs that are the object of the present proposal.@'

[67/] Interestingly, virtually every FMC Notice of Proposed Rulemaking dealing with the UPR ceiling over past years has noted similar cruise line failures as a principal factor motivating the proposed rulemaking. *See, e.g.*, the original NPRM in Dkt 94-06 (59 Fed. Reg. 15149; 3/31/94), citing the involuntary bankruptcy of American Hawaii Cruises, and the further NPRM in Dkt 94-06 (61 Fed. Reg. 33509; 6/26/96), citing the bankruptcies of Gold Star Cruises, Regency Cruises and Palm Beach Cruises during the prior 18 months. *See also* the Final Rule in Dkt 90-01, increasing the UPR ceiling to $15M (55 Fed. Reg. 34564, 34567; 8/23/90) ("The most recent passenger vessel failures have involved new or small operators," citing the failures of Aloha Pacific Cruises, American Cruise Lines, Exploration Cruise Lines and Great Pacific Cruise Lines). There thus is nothing very remarkable about the failure of a number of smaller cruise lines with no unique market identity and operating aging vessels, and such certainly does not provide justification for the present proposal.

[68/] *See generally* Dibner Rpt Part II.B, at 11-13 & App. V.

Two of the cited failures are not really even cruise lines, and their failures certainly have no bearing upon the success of legitimate cruise lines. The first of these is Ferrymar, which apparently operated a single vessel, the *Ferrymar,* in an overnight ferry service between San Juan, Puerto Rico and the Dominican Republic (Dibner Rpt at 12). The second is Great Lakes Cruises, which was a single-vessel charter operation attempted by a ***travel agency*** on the Great Lakes – precisely the type of operation at which Section 3 was directed, except that Great Lakes Cruises proposed to operate only out of foreign ports and thus was outside the FMC's jurisdiction *(id.).* As detailed in the accompanying Dibner Report, Great Lakes Cruises encountered serious problems with health authorities with its chartered Greek vessel, and subsequent adverse publicity killed the proposed operation *(id.,* App. 5, at 19-21). Like Ferrymar, this example provides no guidance whatsoever as to legitimate cruise line operations.

Most of the other failed lines (as well as the more recently failed Regal Cruises) were small operators with only one or a few ships. Also, these lines participated in the so-called "budget" segment of the market, operating older vessels, with only limited brand identity. Finally, most of these lines had extremely limited equity and resources.

Specifically, Premier, Canaveral Cruise, and most recently Regal Cruises, all followed a failing business strategy, operating antiquated vessels that simply could not compete with today's new fleets and economies of scale. Significantly, the first two lines failed in September 2000 – a full year before 9/11 – and right in the middle of the industry's best year ever. Both operated out of Cape Canaveral, where they could not compete with the massive new competition at that Port from the major PVOs. Canaveral Cruise specifically cited Carnival's decision to homeport a vessel at Canaveral, on top of other recently introduced competition by the other major PVOs, as a major consideration in the decision to stop operating after encountering mechanical problems with its only vessel (Dibner Rpt App. 5, at 17-18). Premier had lost its long-time affiliation with Disney, which had introduced two brand new vessels into Canaveral in direct competition with Premier, and Premier simply was unable to find a viable new market niche *(id,* at 21-24). Regal was already for sale, when its single vessel was arrested for non-payment for certain vessel repairs.

AMCV and Commodore attempted massive fleet conversions with inadequate finances and business plans. AMCV, which was operating aging vessels pending its new buildings, suddenly faced unexpected competition from modern vessels in its Hawaii market, and was facing serious problems with the construction of its new vessels, when 9/11 shut-down its air link to the mainland *(id,* at 16-17). Renaissance operated only outside the United States, and for years had pursued a policy of not dealing with travel agents. Like AMCV, Renaissance was hit hard by 9/11's impact on overseas air travel *(id.* at 24-25) .

As detailed in the Dibner Report, these failed cruise lines have virtually nothing in common with the major PVOs. Their vessels were much older, and generally much smaller, than the new ships operated by the major PVOs. Comparison of the financial strength of AMCV and Commodore – the only two of the failed lines that were publicly-held – demonstrates a vast disparity with the major PVOs. Thus, the passenger deposits of the two failed carriers equaled some 40% and 60% respectively of their equity months before they failed. This stands in stark contrast to the typical 10-14% for the major PVOs (see Dibner Rpt at 11).

In short, the failure of these various companies is generally consistent with historical patterns and has no relevance to the possible failure of one of the major PVOs or other substantial cruise lines that have invested in new fleets. Certainly, these failure do not provide a basis for the proposed elimination of the ceiling since, as the NPRM acknowledges, all of the passengers on the covered Section 3 PVOs got their money back. The only possible exception at the time the NPRM was issued was AMCV, which was still in ongoing bankruptcy proceedings. However, as discussed in RCL's recently-filed comments, it now appears that all of AMCV's customers will get their money back. Moreover, they certainly would have been more than fully protected had AMCV been required to maintain the same $15M coverage now required of all carriers, in the aftermath of the elimination of self-insurance.

B. <u>The Difficult Economy and 9/11:</u>

A related concern raised by the NPRM is the perceived difficult "economic circumstances of the past few years and the decline in tourism after the events of September 11, 2001" (67 Fed. Reg. at 66353). This concern appears to be based upon out-of-date and incomplete information. While it may be true that there has been a general decline in tourism since 9/11, the one true bright light and exception in the travel industry has been cruising, which has fully recovered from the shock of 9/11 to hit record passenger counts last year.

The cruise industry hit its low right after 9/11. However, even then the industry showed a strong resilience. On 9/11/01 – notwithstanding the awful trauma of that day, and in the midst of dealing with the turmoil of trying to find arrangements for some 50,000 disembarking passengers, and help newly arriving passengers – RCL took ***11,000 new reservations*** for future cruises. RCL and the industry started a steady recovery from there, and through aggressive, proactive actions, including vessel repositionings, marketing and price cuts, the major PVOs staged a remarkable comeback.

Contrary to the apparent concern expressed in the NPRM, the cruise industry's strong fundamentals, resilience, marketing creativity and ability to survive, and even prosper, in a difficult economic environment, has been amply demonstrated over the past 20 months as the industry bounced back from 9/11 to carry a record 7.6M North American passengers in CY02. This strength has again been demonstrated in recent months, as the cruise industry has successfully coped with the uncertainties of the Middle East political situation and war.

Indeed, not only did the industry survive, it discovered new markets and potential that will fuel future growth for years to come. The stated concerns thus are demonstrably without basis.

C. <u>Industry Consolidation:</u>

The next identified concern in the NPRM is the continuing industry consolidation (67 Fed. Reg. at 66353). It is unclear from the NPRM why this is perceived as a source of concern, at least as to the major PVOs which are the product and survivors of such consolidation, and apparently are now the target of the Proposed Rule.

As recognized in *Fact Finding* 19, consolidation results in a smaller group of financially stronger and more stable survivors (25 S.R.R. at 1477). Certainly that is the case here, where the cruise industry is now dominated by four large, financially sound, publicly held companies. Each of these four companies has invested substantial amounts in new, state-of-the-art vessels. Each has well-recognized market brands and identity. And each has substantial net worth and resources to ensure future success (unless the Commission, through ill-advised action in this proceeding, throws the industry into financial chaos).

This smaller group of financially strong and stable companies is far better situated to withstand and respond to changing economic and industry circumstances. These events should be viewed as a source of strength, and not of weakness. However, the smaller number of survivors does suggest that the Commission should act with caution to ensure that any action it may take does not disrupt the competitive status within the industry, and inadvertently favor one or more players.

D. <u>The Increasing Size and Number of Vessels:</u>

The next cited concern is the increasing size and number of vessels (67 Fed. Reg. at 66353). Again, the NPRM's concern is misplaced. The industry's recent and committed growth in the size and number of vessels is consistent with historical growth________ such growth is necessary to meet demand and the developing and growing "drive and cruise" markets.

Indeed, the new vessels as discussed above, the industry absorbed the new tonnage that came on line last year, and averaged 97% utilization. RCL achieved more than 104% occupancy, and continued at more than 100% occupancy even in the difficult 1403 market environment.

the new ships that will be coming on line over the next several years, as noted in the NPRM (67 Fed. Reg. at 66353 & n.7), and which are the harbingers of a new era of growth for the cruise industry.@'

69/ Rather than being "an indicator of concern," as indicated in the NPRM (67 Fed. Reg at 66353), the commitments to this new capacity reflect the continuing vitality and growth of the cruising industry, and cruise management's belief and commitment thereto. Such continuing growth is consistent with past trends. As noted by Commissioner Ivancie in 1991, "During the last decade [i.e., 1981-90], there was an average growth rate of 7.5% in new berths," and "[t]his pattern of new construction [wa]s expected to continue at least for the next five years" (*FF-19 Final Report* at 4; 25 S.R.R. at 1476). It was the industry's commitment to such continuing growth at that time which enabled the industry to double the number of passengers served from 3.7M in 1990 to an estimated 7.6M last year. The same is true now. Indeed, the present capacity growth is necessary to keep pace with the continuing growth in the number of cruise passengers, and to serve the new "cruise and drive" markets which have been developed and are

E. <u>FMC Passenger Complaints:</u>

The next cited "indicator of concern" is "the number of complaints received by the Commission," characterized as "several hundred complaints per year" (67 Fed. Reg. at 66353). In order to better understand this issue, RCL has undertaken a detailed examination of all passenger complaints received by the Commission for the six years from 1997-2002. The results of this analysis are set forth in RCL Exh. 7 and the Attachments thereto.

RCL's analysis of FMC Case Log docketed passenger complaints (including Congressional complaints) shows that they have been driven largely by the above-discussed failed cruise line nonperformance issues and passengers who simply did not know where to submit their claims. Thus, many wrongly turned initially to the FMC. For example, 452 Premier passengers filed complaints at the FMC within the first 30 days of Premier's cessation of operations (see RCL Exh. 7, at 2; RCL0084). Once these passengers were told where to file their claims, that generally was the end of the matter from the FMC's point of view.

Moreover, overall passenger complaints peaked two years ago in 2000, and have dropped sharply from that peak in each of the past two years, notwithstanding the failure of three additional cruise lines in CY01 (RCL Exh.7, at 2; RCL0084).

If the failed cruise line complaints are removed from the mix, the other filed passenger complaints have remained in a relatively narrow range for the past three years, averaging approximately 173 complaints per year *(id.,* at 3; RCL0085). This number is *de minimis* in the context of an average of more than 7.0M passengers per year. Indeed, given the rising number of passengers, it actually reflects a declining ratio per 100,000 passengers since CYOO *(id.,* Attmt 3; RCL00089B). Moreover, the vast majority of these complaints are outside the Commission's jurisdiction, as the Commission has repeatedly informed Members of Congress in responding to their inquiries with respect to some of the complaints *(id,* at 6; RCL0088, *and sec* RCL Exh. 16).

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rapidly expanding at non-traditional cruise ports all along the U.S. coastlines since 9/1 1 (*see* "Cruises Offer Better Vacations from More Ports," RCL Exh. 10.A. It is telling that, far from trying to stretch-out, defer or cancel new ship commitments in the post-9/1 1 market (as has been the trend in the airline industry), several PVOs, including RCL and Carnival, actually have ***accelerated deliveries*** and/or committed to buying ***additional new ships*** since 9/11. However, the capital commitments that have been obligated to pay for such new buildings over the next few years leave little room for the industry to try to absorb the huge new capital obligations implicit in the Proposed Rule.

More telling are the industry's consistently high passenger satisfaction ratings and the numbers of repeat customers. As set forth in RCL Exh. 7, the passenger complaints, when properly understood and analyzed, and placed in perspective of the overall number of passengers served, simply do not indicate a problem that would be addressed or resolved by any aspect of the proposed rule. Such complaints therefore do not provide a basis for proceeding with the proposed actions.

F. The Congressional Inquiries:

Finally, and in a related vein to the above-discussed passenger complaints, the NPRM cites "an ever-increasing number of inquiries from members of Congress about problems experienced by their constituents" (67 Fed. Reg. at 66353). Again, RCL has undertaken a careful analysis of every Congressional inquiry recorded in the FMC's Case Log for the past six calendar years (see RCL Exh. 7, at 4-6 and Attmts 4-5).

This analysis indicates that, while no doubt politically sensitive, such inquiries again do not indicate a substantial problem. First, the total number of such inquiries is small, averaging less than 27 per year for the past three years – a frankly *de minimis* number in the context of an average 7.0+M passengers. Second, it is not true that the number has been "ever-increasing." Rather, like the broader passenger complaints, the number peaked in CYOO, and has been less in each of the two years since then.

Significantly, less than three inquiries per year have related to true nonperformance issues within the scope of Section 3. The balance of the inquiries relate to a broad range of passenger complaints, virtually all of which the Commission has advised the respective members of Congress are outside the FMC's jurisdiction, or a to which the Commission has no authority to grant relief *(see ag* RCL Exh. 16 A-E).

In short, these Congressional inquiries do not support the proposed rulemaking actions, and certainly would not be resolved thereby, given the scope of the Commission's jurisdiction and authority in this area.

IV. The Mandatorv ADR Proposal Should Be Rejected

The foregoing discussion provides a natural transition to the NPRM's proposed mandatory ADR process, since such presumably is in large part motivated by the perceived number of passenger complaints received. However, as discussed above, and demonstrated in RCL Exh. 7, the passenger complaints and Congressional inquiries simply do not provide a basis for the proposed mandatory ADR. Moreover, such proposal is ill-conceived, impractical and far exceeds both the Commission's authority and practical capabilities. Most importantly, the proposal would improperly, and counter-productively, insert the Commission into the middle of long-established commercial processes and relationships that generally have worked extraordinarily well, with real danger and risk to the entire system, and no perceivable real benefit to the consumer, which would merely be trading one forum for another. The proposal therefore should be rejected.

As discussed at the outset of these comments, cruise lines are extremely sensitive and responsive to customer complaints, since brand protection and reputation are crucial. The major cruise lines all have large customer relations departments to resolve complaints. As determined by Commissioner Ivancie in *Fact Finding 19,* the cruise lines generally go far beyond what they are legally required to do, including offering future cruise discounts in addition to refunds, in order to satisfy customer as to infrequent nonperformance problems. For example, RCL recently had to cancel several voyages of one of its Celebrity Cruises vessels sailing out of the West Coast to Hawaii due to an unexpected mechanical problem. RCL provided full refunds, and also gave each booked passenger a coupon good for a 50% discount on a future cruise. RCL also honored all travel agent commissions. (See RCL Exh. 3.A.)

However, cruise lines must deal with all comparably situated customers equally, and cannot start cutting special deals for each individual customer -- a fact not always properly understood by every individual customer. (See RCL Exh. 3.B.)

From a legal perspective, the Commission does not have authority to impose mandatory ADR as a pre-condition to a PVO participating within the Section 3 program. ADR is supposed to be voluntary, not mandatory. Moreover, the Commission's jurisdiction in this area is limited to nonperformance covered by Section 3. The Commission cannot use its jurisdiction under Section 3 to leverage jurisdiction over other passenger complaints.

To the extent the proposal reflects frustration over the time it takes to resolve true nonperformance claims, whether under a FMC bond or in a bankruptcy, the proposal is understandable, but misdirected. Such delays are not within the control of the failed PVO, which in all likelihood no longer exists at that point. Moreover, the proposal would disrupt and delay normal commercial claims processing procedures, and result in preferential treatment to those filing claims at the FMC, all at huge expense and burden on the FMC and commercial claims processors.[70/]

To the extent the proposal is intended to encompass other than Section 3 nonperformance claims, such claims are outside the FMC's jurisdiction, as the FMC long has recognized. Moreover, adequate commercial and legal avenues already exist to resolve such claims. There has been no showing of need to justify the proposed alternate approach. To the contrary, the NPRM

70/ The Commission should investigate the extent to which imposition of these additional costs and burdens may have on the availability of coverage, as well as the costs of the same. The Commission also should consider the delay impact on other claims, as well as the potential problem, and consequent overwhelming workload, of the proposed ADR process becoming the avenue of first resort if it works at all.

proposal would inject the Commission into the middle of the PVO/passenger relationship, and run the danger of making the Commission the "court of first resort" for passenger complaints.

It may be worthwhile in this regard to consider the Commission's experience with shipper complaints for nonperformance under OTI financial responsibility instruments, *i.e.,* freight forwarder and/or NVOCC bonds. Briefly put, the Commission is charged under the Shipping Act of 1984, as amended, to protect the interests of claimants (typically shippers), OTIs, and financial responsibility providers (typically surety companies underwriting the OTI bonds). Recently, the Commission addressed its duties to the shipping community with respect to OTI financial responsibility instruments for nonperformance.[71/] The Commission found that, in the OTI context, the "[c]laimant may very well be oblivious even to the existence of a bond, in which case it would likely take the only expected course of action, *i.e.,* suing the OTI in state court." Additionally, the Commission commented that it must ". . . be careful not to place oppressive burdens on the claimants, because many shippers who are not regulated entities would not necessarily be aware of the claim procedures in the shipping statutes or the Commission regulations." [72/] The Commission fashioned its OTI bond claim review rules and procedures in accordance with a claimant's right to seek resolution of a claim in a variety of different forums-including using the FMC's ADR procedures.

This experience would suggest that the Commission should avoid a mandatory process here, and certainly should not foreclose pros and sureties from other existing avenues of recourse. The proposed mandatory resolution system will adversely affect both the cruise consumer and cruise lines. Moreover, the Commission lacks the personnel and experience to get bogged down in such an effort.

In short, this proposal would take the FMC very far from its statutory mandate and inject the FMC into the middle of commercial claims resolution and disputes processes where there is neither a demonstrated need nor sufficient statutory authority for the NPRM's proposals.

V. <u>Other Issues</u>:

In addition to the major issues discussed above, the NPRM raises a number of other issues that need to be addressed and clarified.

A. <u>Definition of UPR</u>:

71/ *See Petition of American Surety Association & Kemper National Insurance Companies for Reconsideration of the Final Rule,* FMC Dkt 98-28 (Aug. 18, 1999).

72/ *Id*

The current definition of UPR is unclear and needs clarification. It is unclear precisely what is required to be included in, or excluded from, UPR. This poses problems not only for PVOs in tracking and reporting UPR, but also for claims processors in trying to ascertain what amounts should be reimbursed under the Section 3 performance coverage, and for passengers who should know what they properly are entitled to recover (and what they cannot recover).

While the Commission's jurisdiction is limited to the sea transport portion only, the FMC Staff has from time-to-time suggested that the revenues from land and air portions of combined packages also should be included in UPR under at least certain circumstances.[73/] Moreover, there may be some uncertainty with respect to shipboard services that may be paid in advance (e.g., spa reservations), and for advance booked shore excursions.

The Commission should take this opportunity to set forth a clear set of detailed guidelines, so that all interested participants can clearly understand what is, and what is not, UPR. The Commission should make clear that UPR is limited to ocean transportation and related on-board accommodations, services and facilities, and does not include optional extra charges such as drinks, optional on-board services and shore excursions, much less pre- or post- cruise travel and accommodations.

B. Why 110% of UPR?

The NPRM speaks in terms of establishing a "minimum" level of coverage at 10% of UPR plus EPR. However, the NPRM then makes a quantum jump, and converts this "minimum" into an "add-on" that lifts the initially discussed 100% UPR coverage to 110%. It is not clear whether this was intended. However, there is no rationale for imposing 110% coverage, particularly of a number that already represents the "highest" number in the prior two years. Given seasonality trends, as well as the likelihood that a financially troubled line is unlikely to have its UPR at the highest point of the prior two years, there is absolutely no basis for this "added" layer of coverage.

C. Simplification of Record-Keeping and Reporting:

The entire tracking and reporting system is unduly burdensome, even without the proposed addition of the requirement to track and report EPR. Specifically, there is no apparent purpose or benefit in requiring respondents to track and report UPR/EPR essentially on a daily basis.[74/] RCL

73/ The Commission stated in 1991 that it did not need to obtain public comment on these issues, and suggested that the Commission was going to resolve these issues within the agency (*see* 57 Fed. Reg. 19097, at n.8; May 4, 1992). However, the Comission has not subsequently spoken on these issues, and the industry continues to await and need the Commission's guidance and direction, particularly if some increased coverage is to be required.

74/ *See* proposed 46 C.F.R. § 540.5, which specifies that UPR coverage will be tied to "the date" reflecting the "greatest amount of [UPR]", and the possibly *different* "date" reflecting "the greatest amount of [UPR] plus [EPR]" respectively submits that the FMC could substantially simplify the process by simply requiring a month-end or other consistent number. The two-year period provides a more than sufficient statistical base to provide a degree of confidence and balance, and than sufficient to meet any legitimate need. Indeed, it is interesting to note that the FMC's proposed standard form escrow agreement only requires business week-end *(i.e.,* once a week) recomputing of UPR (see App. A, ¶ 7; 67 Fed. Reg. at 66369).

Moreover, as discussed above, the entire proposed requirement to track and report EPR is extremely burdensome. Few, if any, PVOs have systems which today track, or easily permit tracking of, EPR.[75/] This is particularly true with respect to cruises that are sold directly by travel agencies for their own account, as part of a combined travel package which they put together. In such instances, the PVO may not have any information as to how payment was made, and the proposed information gathering and reporting requirements therefore would need to be flowed down to the travel agencies to pick-up this data.

D. <u>Clarification of "Partial Ship" Charters Exclusion</u>:

For a number of years, the regulations have contained a UPR exemption for certain whole ship charters. The NPRM proposes to add a similar exemption for certain "partial ship" charters. However, the NPRM proposal is unduly vague and unspecific, and needs clarification. Specifically, the proposed definition fails to define what constitutes a "significant" part of a vessel's passenger accommodations under proposed 46 C.F.R. § 540.2(j)(i) (67 Fed. Reg. at 66357), so as to qualify for the new exemption from UPR. Moreover, this definition does not comport with any commonly understood industry term. It would appear that a much broader definition, incorporating a standard industry understanding of "group" bookings, would be more appropriate.

E. <u>Transition Period Rules</u>:

Finally, to the extent that the Commission determines, notwithstanding the foregoing comments, to proceed with some increase in UPR coverage, the NPRM is conspicuously silent as to any timetable for implementing the same. RCL respectfully urges the Commission to recall its prior comments and experience in connection with Dkt 90-01, and to phase-in any increase gradually and over a reasonable period of time. Given the sensitivity of today's travel

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(67 Fed. Reg. at 66357). *See also* proposed 46 C.F.R. § 540.8(b), requiring quarterly reporting of "the highest [UPR] and the highest [EPR] accrued for each month in the reporting period" (67 Fed. Reg. at 66358).

75/ As discussed above, the NPRM does not state the basis for the proposed definition of EPR, and it is unclear why such definition is not at least co-extensive with the minimum protection provided by the FCBA, which extends at least to all charges made within 60 days of the customers receipt of the relevant statement containing the credit card charge.

environment, as well as pre-existing capital expenditure commitments by the major PVOs over the next several years in connection with their ongoing fleet expansion programs, the Commission needs to act carefully, so as to not upset the market.

CONCLUSION:

In conclusion, the Proposed Rule, and particularly, the proposed elimination of the cap on required UPR coverage, if adopted, would have severe, adverse impacts on the entire cruise industry, including not only the major PVOs, but also the many small business travel agencies, suppliers and service providers which work with and are dependent upon the cruise industry. These impacts have not been properly understood or considered by the FMC in connection with the present proposed rulemaking.

RCL requests that the Commission carefully investigate and consider the same before proceeding with the proposed major reversal in long-standing Commission policy. RCL further requests and urges the Commission to undertake a full and thorough cost/benefit analysis with respect to the Proposed Rule and all regulatory alternatives thereto, before making any determination to proceed with the Proposed Rule or any variant thereof. RCL believes that the present system has worked well to protect consumer interests at a reasonable cost, and RCL urges the Commission to reaffirm its past findings and to continue to retain the ceiling on UPR coverage at an appropriate amount.

Finally, RCL urges the Commission to reject the proposed mandatory ADR process. If the Commission believes that steps are necessary to reduce delays in the processing of Section 3 nonperformance claims by surety processors, then the Commission should develop an appropriate, narrowly-targeted response. However, the proposed process threatens to merely add a new level of delay and disruption to an already sufficiently difficult process. The Commission should reject any proposal to impose ADR with respect to other complaints.

RCL very much appreciates the Commission's anticipated careful consideration of these comments and these important issues. RCL looks forward to the opportunity to further present its position, and to answer any Commission questions, at the scheduled June 11, 2003 Public Hearing.

Please contact the undersigned in the interim if you have any questions regarding this filing.

Respectfully yours,

Hopewell H. Darneille III

' Michael G. Roberts
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Re: FMC Dkt 02-l 5 (Passenger Vessel Financial Responsibility)
-- Comments of Royal Caribbean Cruises Ltd.

Dear Mr. VanBrakle:

Royal Caribbean Cruises Ltd. ("RCL"), the world's second largest cruise company,[1/] respectfully submits the following comments, and the accompanying Exhibits ("RCL Exhs") and "Financial and Economic Assessment of the Proposed Rule" by Dibner Maritime Associates (the "Dibner Report"), in response to the Commission's Notice of Proposed Rulemaking ("NPRM") inviting comments on proposed changes (the "Proposed Rule") to the passenger vessel financial responsibility regulations, 46 C.F.R. Part 540 (FMC Dkt 02-15; 67 Fed. Reg. 66352, 10/31/02). RCL also respectfully refers the Commission to RCL's previously filed comments on the regulatory aspects of the rulemaking, dated December 2, 2002, and RCL's comments on the outcome of the bankruptcy liquidation proceedings of American Classic Voyages ("AMCV"), dated May 27, 2003.

RCL applauds and supports the Commission's stated goal to enhance consumer protection of cruise passengers. Passengers are the lifeblood of the cruise industry. It therefore is important that they be satisfied and feel secure in taking cruises, including that they will get their money back if a cruise line does not perform a scheduled cruise. Passengers must be protected, as they have been for the past 36+ years under the Commission's Section 3 program, from fly-by-night operators and undercapitalized cruise lines. In the rare event of cruise nonperformance (e.g., due to mechanical failure or other unforeseen event), RCL and the other major Passenger Vessel Operators ("PVOs") go beyond what is legally required. These large PVOs not only refund the passengers' monies, they also offer discounts on future cruises, while protecting travel agent commissions (see, e.g., RCL Exh. 3.A). These PVOs also maintain large customer service staffs,

[1/] RCL, a publicly-held company listed on the New York Stock Exchange, is a global cruise vacation company that operates Royal Caribbean International ("RCI"), the world's largest cruise brand, and Celebrity Cruises ("Celebrity"), both of which participate in the FMC's financial responsibility program. *See* RCL Exhs 1 & 2.

whose sole goal is to satisfy any passenger concerns and "win back" any dissatisfied customer. The PVOs are justly proud of the industry's high customer satisfaction rating, which far exceeds that of all other elements of the travel and leisure industry. The large PVOs are harmed when passengers suffer from nonperformance by small failed PVOs and others.

The interests of the Commission and of the cruise industry in promoting cruise customer interests are thus well-aligned. Having said this, RCL is extremely concerned about the present proposals to address cruise line nonperformance. These proposals would impose huge costs on cruise lines and their customers, and threaten the very fabric of the industry, for absolutely no real benefit or increased protection to the consumer. The Commission's key concern is clear and understandable – what happens if a major cruise line, holding hundreds of millions of dollars in customer deposits (that are not covered by an FMC-sanctioned guarantee), fails and ceases operating? This is the same question the Commission asked twice before when it considered, and rejected, earlier proposals to eliminate the ceiling on required Unearned Passenger Revenue ("UPR") coverage – once following an in-depth investigation in Fact Finding Investigation 19, and then again after several years of proceedings in Dockets 94-06 and 94-21. It is the same question that can be asked of the airline industry, the hotel industry, or any other business that collects substantial monies before the services or goods are delivered.

The answer lies in (1) the strength and resilience of the cruise industry, and the public's love of cruising, (2) the financial strength of the four major PVOs -- Carnival Corp.,[2] RCL, Norwegian Cruise Line ("NCL") and Disney Cruise Line ("Disney") -- which account for some 97% of all U.S. port cruise passenger departures, and which have a combined net worth in excess of $40 Billion ("B"), and are all publicly-held and subject to public financial reporting requirements, (3) the value inherent in (and low marginal operating cost of) the new, state-of-the-art, large cruise ships and the brand names of these PVOs, which would compel creditors to keep operating the vessels, and honor cruise tickets, in the event of any PVO failure,[3] and (4) the entire range of existing consumer deposit protections, including credit card coverage, third-party insurance covering cruise line failure, the existing FMC bond coverage, and the consumer deposits priority under Section 507(a)(6) of the Bankruptcy Code (11 U.S.C. § 507(a)(6)). The very fact that millions of consumers entrust more than $2B in deposits to the major PVOs is an extraordinary vote of confidence in the cruise industry and the combined adequacy of the foregoing considerations. This is simply overwhelming evidence that additional, costly protection is not required.

2/ Carnival merged with P&O/Princess in April 2003 to create a combined company with dual-listed stocks on the U.S. and United Kingdom (U.K.) stock exchanges (*see* RCL Exh. 4.A). Carnival has stated that it intends to continue the Princess brand. Combined *pro forma* data on the combined companies is set forth in RCL Exh. 4.D.

3/ The cruise brands of these four companies (and their respective numbers of vessels enrolled in the FMC Section 3 program as of 2/6/03), are Carnival Cruise Line (21), Celebrity (9), Costa Cruises (7), Cunard Line (3), Disney (2), Holland America Line (13), Orient Lines (1), NCL (9), P&O Cruises (6), Princess (12), RCI (17), Seabourn (3) and Windstar (2) (RCL Exh. 8). These brands each have decades, and in some cases more than a century, of service.

RCL has devoted a great deal of effort to answer some of the related questions that the Commission may have. RCL's brief answers (which are amplified below and in the accompanying Dibner Report), include the following:

- ***Why have there been a half-dozen or so cruise line bankruptcies over thepastfew years?***

  Every single bankruptcy has involved a carrier that operated one or a few relatively small old ships having an average age of almost 40 years. These operators did not invest their profits to recapitalize their fleets, and were unable to compete with the efficient, state-of-the-art, new cruise ships introduced during the past few years by the major PVOs. With the exception of AMCV, the failed operators simply ran out the string on those assets. AMCV's unsuccessful effort to build two new cruise ships is well-known.[4/]

- ***What are the chances that a major cruise line couldfail, and what would happen should such occur?***

  RCL operates the largest cruise ships in the world, having an average age of about six years.[5/] RCL and the other major PVOs have invested tens of billions of dollars in new vessels, and billions more in developing and preserving their brand identities. They earn excellent returns for their shareholders, as shown by a ***combined net equity of about $16B for the three largest PVOs – eight times the amount of customer deposits on hand.***[6/] This is just one of several key indicators showing that, based on current and reasonably foreseeable market conditions, the chance that a major cruise line would fail, stop operating, and be unable to cover customer deposits (all three of which must occur before the FMC's nonperformance program is needed), is essentially zero. Even if a major PVO were somehow to fail, the value inherent in, and low operating costs of, the PVO's modern vessels, as well as the value inherent in the PVO's cruise brand names, would strongly motivate creditors to continue operating the vessels and honor existing tickets."

- ***What happens when a PVO fails, and specifically are existing consumer protection mechanisms generally sufficient to protect consumers against loss of their deposits?***

  If a PVO fails and ceases operating, passengers have recourse to recover their deposits through a variety of mechanisms including credit card coverage if a credit card was used

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4/ *See generally* Dibner Report at 7, 11-13, and App. 4 ("Assessment of the Causes of Cruise Line Failures") & App. 5 ("History of the Interruptions Cited by the FMC").

5/ *See* RCL Exh 2.A, and Dibner Report at 8 Fig. I-3; *and see* RCL Exh 1.E (RCL), Exh. 4.D (CCL) & Exh. 5.E (NCL).

6/ *See generally* Dibner Report at 7, 11-13 & App. 5 ("History of the Interruptions Cited by the FMC").

7/ *Id.*, Dibner Report Part III.B, at 18-19 (lenders and creditors are committed to preserving brand value and reputation in order to maximize ultimate value in any market or financial circumstances).

for the purchase, third-party insurance covering cruise line failure if purchased, and the priority preference protection for consumer deposits under the Bankruptcy Code, all in addition to the existing FMC bond coverage.[8/] As acknowledged in the NPRM, these mechanisms have proven sufficient for the past 36+ years to allow every passenger on failed cruise lines covered by the FMC's program to recover their monies (67 Fed. Reg. at 66353). The one possible exception noted in the NPRM was AMCV, which was still in ongoing bankruptcy proceedings at the time the NPRM was issued. Those proceedings have now been completed, and it appears from the Court's Order and approved liquidation plan that the AMCV passengers also will get their money back, despite the absence of any FMC financial bond coverage." Thus, even in the cases to date, involving "budget" cruise lines with scrap value ships, passengers have gotten their money back. Certainly a similar result would be expected were one of the major PVOs somehow to fail, given the huge equity and value in such companies and their modern fleets. And indeed, as noted above, it is highly likely that, in such a situation, creditors would continue to operate the vessels and honor passenger tickets, to protect the creditors' own economic interests.

- ***Is there any scenario under which the passengers of a major cruise line could lose their deposits?***

Given current and foreseeable market conditions, the only scenario where substantial customer deposits could potentially be lost would involve the sudden, total and prolonged destruction of the North American cruise industry. It is hard to imagine what it would take to achieve such a result, given the remarkable resilience shown by the cruise industry and the traveling public in responding to past events, including the horrific terrorist attacks of 9/11. Insuring against such catastrophic circumstances is not remotely the purpose of the Section 3 program. And were such to happen, we all would have far more pressing concerns and interests.[10/] Indeed, it is interesting to note, with all the disruption of 9/1 1 and the total shut-down of the nation's air traffic system for a number of days, just how few passenger complaints the FMC received from passengers relating thereto.[11/]

[8/] *Id.*, Part III.C ("Alternative Available Sources of Passenger Deposit Protection"), at 20-23. As also noted in the Dibner Report, passengers and their travel agents have a strong self-interest in identifying and avoiding any vacation provider that presents a serious risk of non-performance. This is a very important, but not easily measured, line of defense against a serious default.

[9/] *See* RCL's May 27, 2003 comments letter in this Docket, discussing the recent outcome and impact of the AMCV bankruptcy proceeding.

[10/] *See* Dibner Report at 20 ("Subjection of the Cruise Industry to Unique Attempts to Indemnify Against Catastrophe").

[11/] *See* RCL Exh. 7, Attmt 1 (30 complaints in CY01 & 26 complaints in CY02).

- ***Has anything happened since the FMC last reviewed these issues that warrants the Commission reaching a different conclusion than its predecessors?***

  No! Indeed, to the contrary, the cruise industry today is far stronger than it was in 1990 and in 1994-96. The industry has consolidated around four, financially strong, major PVOs, which have invested billions of dollars in new, efficient, state-of-the-art vessels that are destinations in and of themselves.[12/] Passenger growth has more than doubled from 3.7 million ("M") passengers in 1990 to 7.6M passengers last year,[13/] operating costs have decreased, and occupancy rates are high, even with all of the recent political, economic and health uncertainties. Cruising is no longer the province of the rich and elderly, but rather has expanded to encompass mainstream America. Moreover, as demonstrated by ongoing industry expansion to new ports, the cruise industry is just beginning to penetrate new geographic and "drive-to" cruise markets.[14/] Virtually all of the undercapitalized "budget" lines and old vessels that prompted Congress's concerns in the mid-1960's are now gone.[15/] Every single change or trend in the industry supports maintaining the ceiling, as the Commission's predecessors concluded in prior years.

- ***Precisely what role has Congress given the FMC in this area?***

  Congress charged the Commission to ensure that PVOs are financially responsible, and to protect the public from the type of fly-by-night operators that preyed upon passengers in the mid-'60s. However, Congress envisioned this being done primarily through the review of financial information to be submitted by the PVOs. Congress clearly never intended that the Commission establish a passenger refund guarantee program. And indeed, Congress made this intent unmistakably clear in 1993 when Congress amended Section 3 specifically to delete the only language that could even arguably have been read to require dollar-for-dollar coverage. The Commission always has recognized this role, and from the very outset has implemented a ceiling on UPR coverage to insure certain minimum coverage for all operators, but strike an appropriate balance between costs and benefits for the larger, more established carriers that the Commission has recognized pose little risk.[16/]

12/ *See* Dibner Report Part II ("Defining the Current Cruise Industry Structure"), at 9-11.

13/ *Compare* RCL Exh. 9.C ("More than 7.6 million North Americans are estimated to have cruised in 2002") *with* RCL Exh. 15 at RCL0133 (3.7M passengers in 1990).

14/ *See* RCL Exhs 10.A & B.

15/ Dibner Report at 7, 11-15 and Apps 4 & 5.

16/ *See* Final Rule in FMC Dkt 90-01, 55 Fed. Reg. 34564 (8/23/90).

- ***What are the costs of eliminating the ceiling?***

  Eliminating the ceiling will impose an enormous cost on the industry, requiring PVOs to finance and tie-up more than $2.3B of capital in unproductive financial guarantee accounts. This will strain PVOs' financial resources and liquidity, and force them to divert funds from new building and expansion programs. The general economic and competitive market impacts will be widespread, and ultimately the very consumers the Commission seeks to help not only will have to pay the resulting higher costs, but also will face reduced cruising options and less competition. The direct and indirect costs will be in the hundreds of millions of dollars each year. Had the Commission's predecessors taken such an approach in the past, the economic burdens over the years would have been huge, with absolutely zero benefit to the consumer. However, it is hard to imagine the cruise industry being anywhere close to what it is today under such circumstances.

For all of these reasons, RCL strongly opposes the proposed elimination of the UPR coverage ceiling. RCL respectfully urges the Commission to consider carefully all aspects and impacts of this proposal, and to conduct a detailed cost/benefit analysis, before moving forward with such a momentous change in long-standing Commission policy and interpretation of its statutory authority.

The NPRM's suggested exclusion of FCBA-covered credit charges from the UPR coverage requirement makes considerable sense on one level, to avoid redundant coverage and unnecessary additional passenger expense. However, RCL believes that this reasonable goal would be better achieved by the Commission taking "administrative notice," as it effectively has in the past, of <u>all</u> of the existing protections available to passengers. This includes not only credit card protections, but also third-party insurance, PVO net worth, and the consumer deposits priority under the Bankruptcy Code. As comments already filed by two credit card interests make clear, the Commission's approach threatens to upset existing cooperative commercial relationships that benefit cruise customers.[17/] Moreover, the Commission's approach would impose burdensome new reporting obligations on PVOs and travel agents to track credit card charges, including the timing thereof. The PVOs do not today have systems in place to accomplish this. Finally, there is a marked, and wholly unjustified, divergence between the FCBA's minimum coverage (60 days from the customer's receipt of the relevant billing statement) and the far narrower proposed EPR definition (within 60 days of the sailing date), which substantially reduces the intended benefit of the proposed exclusion.

17/ *See* the comments filed by Discover Bank, and its affiliate Discover Financial Services, Inc. (jointly, "Discover"), dated April 4, 2003, and by Visa USA Inc. ("Visa"), dated April 28, 2003, stating that the Proposed Rule could result in "higher costs and fees to merchants and consumers" (Discover Cmts at 5), and could create "a strong incentive" for credit card companies "to defer the availability of funds to the cruise lines" (Visa Cmts at 3). The NPRM states that "Whatever means credit card issuers use to cover risks posed by excepted passenger revenue or the FCBA is beyond the scope of this proceeding" (67 Fed. Reg. at 66354 n.8). However, the Commission cannot simply ignore the known consequences of its actions, particularly where, as the credit card companies point out, it is the Commission's action in singling out the credit card companies that is motivating such consequences.

RCL also opposes the proposed mandatory Alternative Dispute Resolution ("ADR") process. This proposal threatens to disrupt and potentially destroy existing commercial processes that generally have worked extremely well. Moreover, the proposal would impose significant new costs and uncertainties on PVOs and their passengers, with no perceivable benefit and substantial risk. To the extent the proposal reflects frustration with the amount of time that it takes to resolve true nonperformance claims -- whether under the Commission's Section 3 program coverage or in a bankruptcy proceeding -- the proposal, while well-motivated, is misdirected.[18/] At that stage, the PVO no longer exists, and certainly is not involved in disputing recovery. Rather, the issue is solely one of proper claims processing and substantiation in accordance with well-established legal and commercial standards and processes that are designed to ensure fair treatment to all similarly situated claimants.[19/]

To the extent that the ADR proposal also is directed at other than true nonperformance claims, the proposal exceeds the Commission's jurisdiction, and threatens to disrupt well-established commercial and legal avenues to resolve such issues.[20/]

In either case, the Commission would be making a serious mistake to believe that it has sufficient resources, and is better positioned to resolve such issues than companies that specialize and are experienced in such processes, and to make the Commission, potentially, the forum of first resort.[21/] RCL alone has 122 full-time customer service personnel just in the United States to deal

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18/ During the January 30, 2002 Commission meeting, the FMC Staff noted that "[t]hese claims take some time to pay," and stated that the staff was "exploring to see if there is some way the Commission can do something that would help shorten the time period for the payment of valid and legitimate claims" (Tr. at 12, 13).

19/ As acknowledged by the FMC Staff, the delay in paying nonperformance claims is due to "[t]he sheer volume of claims that are filed" in a failure, and "difficulties with records of the cruise line when it's a bankrupt firm," and "[f]inding those records, [and that] finding personnel who know how to interpret them can take time" (1/30/02 FMC Meeting Tr. at 12-13). As the Commission has recognized, in some cases delay also has resulted from interactions between the FMC bond process and parallel bankruptcy proceedings (*see, e.g.,* the extended stay on FMC bond payouts imposed by the Bankruptcy Court in connection with Regency Cruises; RCL Exh. 16.E). None of these issues is addressed or would be resolved by the Proposed Rule, and would equally frustrate and delay any Commission ADR proceedings that might be attempted.

20/ Although the NPRM is less than clear on this point, the language regarding providing "protection to passengers who are otherwise unable to obtain relief," in juxtaposition to the conjunctive language in the same sentence addressing settlement of "claims for nonperformance" (67 Fed. Reg. at 66355), appears to suggest that the proposal is intended to extend beyond nonperformance claims to encompass the whole range of passenger complaints received by the Commission. This is particularly so when such language is combined with the NPRM's discussion of "the number of passenger complaints received by the Commission" (*id.* at 66353) – many of which have absolutely nothing to do with nonperformance (*see* RCL Exh. 7, at RCL0085-86, 89 & 89A). Interestingly, in letters responding to Congressional inquiries regarding such other complaints, the Commission has consistently stated that the subjects of such complaints are outside the Commission's jurisdiction (*id; see, e.g.,* RCL Exh.16). The Commission cannot now use Section 3 as a basis to expand its jurisdiction to include such complaints.

21/ While such may not be the Commission's intent, the reality, in today's Internet-connected world with many travel websites and chat rooms, is that the very first time a favorable decision were to be achieved through such a with customer service issues, and the other major PVOs have similar staffs. These people are very good at what they do, and have a mandate to "win back" the passenger that goes far beyond anything the Commission could undertake or hope to accomplish. The very small number of passenger complaints received by the Commission, compared to the large number of cruise passengers, is a testament to the outstanding job these people do, and establishes the lack of need for the proposed ADR process.[22/]

RCL urges the Commission to move very cautiously, and to consider carefully all potential implications and ramifications, before moving forward with this ADR proposal and disrupting the PVO/passenger relationship by injecting the Commission into the middle thereof.[23/]

The NPRM also raises several other issues that warrant some clarification. These include (1) transition to any new regime, (2) clarification of the definition of UPR, (3) reduction of the UPR tracking and reporting burden by using a single month-end number, and (4) clarification of the proposed new "partial ship" exclusion.

These comments will address each of the foregoing issues. First, however, some factual background is necessary as to the history of the Section 3 program, and the Commission's consistent interpretation, reinforced by Congress's 1993 amendment of the statute, that Section 3 was never intended to serve as a "financial guarantee" and require dollar-for-dollar UPR coverage. Next, the comments describe RCL and its specific interest in this proceeding, as well as today's modern cruise industry, and contrasts today's major PVOs with the failed cruise lines cited in the NPRM. The comments then discuss some of the data obtained from the FMC's files as to the parameters and scope of today's Section 3 program.

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process awarding relief that was either faster or more generous than otherwise available, a virtual flood of complaints would follow seeking similar relief, which would quickly swamp whatever processes the Commission might establish. Indeed, it is interesting in reviewing the FMC's passenger complaint log to note that certain complaints came in waves, suggesting a mass response to some suggestion that the problem, whatever it may have been, should be directed, in the first instance, to the FMC (*see* RCL Exh. 7, at 2 & n.6).

22/ Excluding cruise line failures, FMC filed passenger complaints have remained essentially flat over the past three years, averaging 172.7 complaints per year. This compares to an increasing number of passengers averaging over 7.1M annually. *See* RCL Exh. 7, at 3-4 and Attmts 2 & 3.

23/ While being willing to try to facilitate a quick and fair resolution, the Commission in the past always has been very careful to emphasize that, ultimately, "the final resolution of such complaints or inquiries ***is a matter between the cruise line and the individual***" (FMC "Notice to Cruise Passengers," posted 2/14/02; emphasis added).

FACTUAL BACKGROUND [24/]

A. The Statute – Enactment and Amendment of Pub. L. 89-777:

In late 1966 Congress enacted Pub. L. 89-777.” Section 3 requires that each owner or operator of a passenger vessel with 50 or more berths embarking passengers at a U.S. port establish its financial responsibility to indemnify passengers for nonperformance of the transportation.[26/] This provision arose out of several instances in the early 1960's where passengers who had booked cruises on chartered vessels were left stranded at the docks, without any remedy, when the chartered vessels failed to show up and the charterers disappeared without a trace.[27/] Section 3, while covering all passenger vessels, was directed primarily at such irresponsible vessel charterers and other "fly-by-night" operators."/

By its express wording, Section 3 sets up a two-track scheme for establishing financial responsibility. Specifically, Section 3(a) requires each PVO <u>either</u> (1) to provide such ***information*** as the Commission may deem necessary to establish the PVO's financial responsibility, ***<u>or</u> in lieu thereof,*** (2) to provide ***a bond or other acceptable form of security.*** The disjunctive wording of the title of Subsection (a), "Filing of ***Information <u>or</u> Bond*** with Commission," highlights this two-track scheme right up front (emphasis added). The text of Section 3(a) further confirms, and sets forth in greater detail, this dual-track scheme. Thus, Section 3(a), as presently codified, states as follows:

24/ A detailed Chronology of events relating to the cruise industry, and the adoption and implementation of the Commission's Passenger Vessel Financial Responsibility Program, over the past 39 years is set forth as <u>RCL Exh. 12</u>, for the Commission's interest and convenient reference.

25/ 80 Stat. 1356, 1966 U.S. Code Congr. & Admin. News *(80* Stat.) 1582-84, *codified, us amended,* at 46 U.S.C. App. 817d-e.

26/ Pub. L. 89-777, Section 3, 80 Stat. at 1357-58, *codified, as amended,* at 46 U.S.C. App. 817e. Section 2 of the Act requires PVOs to establish evidence of financial responsibility to pay judgments for personal injury or death of passengers. That Section is not addressed in these comments.

27/ As explained in H. Rep. No. 1089, 89th Congr., 1st Sess. (1965), "Unfortunately, the [ocean cruise] traffic [from U.S. ports] has attracted also a number of operators of questionable financial responsibility, operating aging vessels with lower safety and sanitary standards. This has resulted in several instances where scheduled cruises were suddenly cancelled by the cruise operators at the last moment. Passengers have been left on the dock, and have lost passage moneys which they have paid" *(id.,* at 2).

28/ As then FMC Chairman Admiral Harllee testified with respect to the original proposed version of the legislation, "H.R. 10327 . . . goes to the protection of the public from irresponsible charterers of ships. We do not think that either the American-flag lines, such as United States Lines or Grace, or the foreign lines like Cunard or Holland-America, need to submit any bonds, because there is no record of defaulting problems with them. To make them license themselves in the manner of financial defaulting would be clearly overregulation." *Coastwise Cruise Regulations: Hearings before the Subcomm. on Merchant Marine of the House Comm. on Merchant Marine & Fzsherzes,* 89th Congr., 1st Sess., at 70-7 1 (1965).

> **"(a) Filing of Information or Bond with Commission.** No person in the United States shall arrange, offer, advertise, or provide passage on a vessel having berth or stateroom accommodations for fifty or more passengers and which is to embark passengers at United States port without there first having been filed with the Federal Maritime Commission ***such information as the Commission may deem necessary to establish the financial responsibility of the person*** arranging, offering, advertising, or providing such transportation, ***or in lieu thereof*** a copy of ***a bond or other security,*** in such form as the Commission, by rule or regulation, may require and accept, for indemnification of passengers for nonperformance of the transportation." (46 U.S.C. App. 817e(a) (2002); emphasis added.)

The Act thus specifically contemplates a regime under which established, financially sound operators would be able to establish their financial responsibility ***solely*** through the submission of ***sufficient financial information***.[29/] This distinction has been recognized and acknowledged by the Commission. As stated by former FMC Commissioner Ivancie in his "Report to the Commission" in Fact Finding Investigation No. 19, "Congress envisioned two options," and "[b]onding appears to be a secondary option in the event that an operator is not financially secure." *(Investigation -- Passenger Vessel Financial Responsibility Requirements* (hereinafter *'Fact Finding 19* [or "*FF-19*"] *Report"),* at 25 S.R.R. 1475, 1479 (April 11, 1991).)[30/]

There, thus, was absolutely no intent by Congress to require 100%, or dollar-for-dollar, coverage. To the extent that there may have been any potential confusion in this regard arising out of the original language of Section 3(b), such issue was definitively resolved in 1993 when Congress specifically amended Section 3(b) to strike the original ending language "and such bond or other security shall be in an amount paid equal to the estimated total revenue for the particular transportation."[31/] Indeed, during the Commission's January 30, 2002 Sunshine Meeting discussion, then-Chairman (now Commissioner) Creel specifically stated that this amendment establishes the intent of Congress that, at least as to bonds, something less than 100% coverage would be sufficient (FMC 1/30/02 Meeting Tr. at 21).

29/ As explained in S. Rep. No. 1483, 89th Congr., 1st Sess., 1966 U.S. Code Congr. & Admin. News 4176, 4182, Section 3 "provides for the filing of evidence of financial security or in the alternative a copy of an acceptable bond or other security because many persons operating in the cruise business are responsible and maintain sufficient assets in this country which could be proceeded against."

30/ A copy of the *FF-19 Report* is set forth as RCL Exh. 15 for the Commission's convenient reference.

31/ Pub. L. 103-206, Coast Guard Authorization Act of 1993, Section 320. Commissioner Ivancie acknowledged this interpretation issue in his *FF-19 Report,* but concluded, even before the Act was amended, that the plain language of the Act established two options, and that bonding was "a secondary option" for those operators who could not otherwise establish their financial responsibility (25 S.R.R. at 1479; RCL Exh. 15, at RCL0136).

B. <u>History of the Commission's Rule</u>:

In order to implement the Act, the Commission in 1967 promulgated the "Passenger Vessel Financial Responsibility" regulations, now set forth, as amended, in 46 C.F.R. Part 540 (32 Fed. Reg. 3986-91; 3/11/67).

While the Act authorized the Commission to find adequate evidence of financial responsibility based solely upon the submission of information, as discussed above, the Commission, with one exception (self-insurance), always has required some more concrete financial assurance. Specifically, from the outset the Commission's regulations have required every PVO to provide some monetary coverage. This coverage amount has been specified nominally as an amount no less than 110% of the PVO's highest UPR during the prior two years.

However, the Commission has ***never*** made this coverage obligation open-ended. Rather, "[t]he Commission has always interpreted Section 3 as mandating a reasonable ceiling on the size of the security required of a cruise operator" *(FF-19 Rpt,* 25 S.R.R. at 1479).[32/] After "studied judgment of the Commission's staff from data and information provided to it by various segments of the industry," the Commission initially established this ceiling at $5M in 1967.[33/] The Commission subsequently increased this ceiling to $1 OM in 198 1, and most recently to the present $15M in 1991.[34/]

This ceiling in effect recognizes, consistent with the original statutory intent discussed above, the financial soundness and reduced risk presented by the larger, more established PVOs. Indeed, in rejecting an earlier proposal to eliminate the UPR coverage ceiling, the Commission expressly acknowledged that its records "support the contentions of the larger operators concerning their record of performance," and noted that "[t]he most recent passenger vessel failures have involved new or small operators."[35/]

The ceiling also ameliorates the harsh and unjustified financial burden and impact that would result from requiring full coverage by the larger, more established PVOs, without necessarily increasing the protection afforded consumers. As stated in *Fact Finding 19,* "The Commission has always interpreted Section 3 as mandating a reasonable ceiling on the size of the security required of a cruise operator. . . . The Commission has consistently interpreted the statute

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32/ This ceiling is implemented in 46 C.F.R. §§ 540.5, 540.6(b) & 540.9(j).

33/ *See* Final Rule in Dkt 66-67 (General Order 20), 32 Fed. Reg. 3986 (3/1 1/67), *amended in other regards*, 32 Fed. Reg. 5457 (4/1/67).

34/ FMC Final Rule, Dkt 79-93, 45 Fed. Reg. 23428 (4/1/80); Final Rule, Dkt 90-01, 55 Fed. Reg. 34564 (8/23/90). These increases considered, but were not strictly governed by, the intervening increases in the CPI.

35/ FMC Final Rule in Dkt 90-01, published at 55 Fed. Reg. 34564 (Aug. 23, 1990).

as requiring financial responsibility, not financial guaranty. The Commission has also recognized that a dollar-for-dollar bonding requirement would unnecessarily increase an operator's cost of doing business."[36] However, the Commission recognized that this increased cost ultimately would be passed on to, and would be borne by, the passenger, but would not necessarily result in any increase in the individual passenger's protection.[37]

C. <u>Fact Finding Investigation 19</u>:

Incident to the decision in 1990 to raise the UPR coverage cap to $15M, the Commission initiated Fact Finding Investigation 19 to study conditions in the cruise industry and determine whether changes should be made in the Commission's regulation of passenger vessel financial responsibility, and specifically whether the UPR coverage cap should be eliminated (55 Fed. Reg. 346 10; 8/23/90).

After an extensive investigation, including public hearings as well as written comments, Commissioner Ivancie issued a detailed *Report* to the Commission (25 S.R.R. 1475 (<u>RCL Exh. 15</u>); 4/1 1/91). This *Report* noted the "spectacular" growth of the cruise industry from 0.5M passengers in 1970 to 3.7M in 1990, with an average growth rate of 10.3% since 1980 *(id.* at 1476). The *Report* further noted that there had been some consolidation in the industry, "making the industry somewhat more financially stable" *(id.* at 1477). While the *Report* noted that there had been a few cruise line bankruptcies over the years, "in all of these instances, the evidence of financial responsibility was sufficient to cover all passenger claims for nonperformance" *(id* at 1477, 1486). The *Report* noted that when cruise lines cancel a sailing, they not only refund passenger deposits, but "go beyond what is legally required to make sure that their passengers are satisfied," and offer discounts on future cruises while honoring travel agent commissions *(id.* at 1477).

The *Fact Finding 19 Report* highlights several pertinent points:

- Outstanding UPR in 1990 was in excess of $1 .OB, while existing coverage on file with the FMC amounted to $258M, leaving more than ***$750M in UPR uncovered*** *(id.* at 1486).
- 65% of coverage was provided by ***P&Z Clubs,*** which ***required an unconditional letter of credit from the PVOs to reimburse any losses*** (effectively requiring the PVOs to set-aside and tie-up the entire capital amount of the required coverage) *(id.* at 1476, 1480).

[36] *FF-19 Report* (<u>RCL Exh. 15</u>), *25* S.R.R. at 1479.

[37] *Id.*, 25 S.R.R. at 1480 ("Costs would be raised and the individual passenger's protection would not necessarily be increased").

- The FMC "has consistently interpreted the statute as requiring ***financial responsibility, not financial guaranty;"*** moreover, recognizing "that a ***dollar-for-dollar bonding requirement would unnecessarily increase an operator's cost of doing business," the*** FMC has never required dollar-for-dollar coverage *(id* at 1479; emphasis added).
- ***Travel interests opposed an increase*** in UPR coverage ***since*** "All ***costs*** of consumer protections systems ***are eventually paid by all consumers*** of the transportation product," ***and removal of the ceiling "would only increaseprices without providing a meaningful increase in protection"*** *(id* at 1482; emphasis added).

The *Fact Finding-19 Report* concluded that ***the UPR coverage ceiling should be retained*** *(id.* at 1486). As stated by the *Report*, "to require a dollar-for-dollar coverage . . . would be departing from [the Commission's] established policy with no reasonable justification. ***Costs would be raised and the individual passenger's protection would not necessarily be increased"*** *(id.* at 1479-80; emphasis added).

D. <u>The FMC's Determination to Retain the UPR Ceiling</u>:

The Commission subsequently invited comments on the *Fact Finding 19 Report* recommendations, including specifically the recommendation to retain the UPR coverage ceiling (Dkt. 91-32; 56 Fed. Reg. 40586; 8/15/91). After thorough consideration of the submitted comments, the Commission determined to retain the ceiling (57 Fed. Reg. 19097; 5/4/92).

The Commission subsequently revisited the ceiling issue in Dkt 94-06 (59 Fed. Reg. 15 149 (3/31/94); 61 Fed. Reg. 33509 (6/26/96)). However, the Commission stepped back from such efforts because "The Commission was not aware of any instance in which passengers had lost funds as a result of cruise line bankruptcies or other failures to perform, and the economy and the cruise industry were thriving. The risk of nonperformance appeared minimal." (67 Fed. Reg. at 66353).

In July 2002, the Commission eliminated the self-insurance exception, in response to the problems brought to light by the AMCV failure and bankruptcy. See Final Rule in FMC Dkt 02-07 (67 Fed. Reg. 44774; 7/5/02).

E. <u>Today's Modern Cruise Industry</u>:

Much of what was written about the cruise industry in the *Fact Finding 19 Report* twelve years ago is equally, if not more so, true today, except for some needed updating as to the numbers and noted trends.

Most importantly, the industry has continued its "spectacular growth," not only in numbers of passengers carried, but also in terms of the number, size, amenities and efficiency of vessels, the geographic reach of home ports and ports of call, and the breadth of population demographics now attracted to cruising. Specifically:

- the industry has more than doubled from 3.7M passengers in 1990, to more than 7.6M North American market passengers in 2002.[38/]
- the number of passenger ships has grown from 123 in 1990 (25 S.R.R. at 1476) to 175 participating in the Commission's Section 3 program as of 2/6/03 (see RCL Exh. 8).
- the new ships that have been introduced over the past ten years are considerably larger, more luxurious, and more efficient cost-wise, and, in many instances, are "destinations" in and of themselves;
- in the aftermath of 9/1 1, the industry has significantly expanded its geographic reach, and now homeports vessels at ports along the entire reach of all three U.S. coastal ranges, opening-up new "drive-and-cruise" markets and increasing cruise access and choices for all Americans (see RCL Exhs 10.A & B, RCL0107-09 & RCL0111);
- moreover, the efficiency of the new vessels, as well as tight cost controls and centralized purchasing, have enabled the industry to lower prices, making cruising more affordable and facilitating cruising's move into mainstream America's economic reach and vacation planning spending; cruising is no longer the preserve of the rich and elderly.

The cruise industry has amply demonstrated its resilience, ingenuity and steadfastness over the past several years, as the industry has weathered and bounced back from economic downturn, the horrific events of 9/1 1 and subsequent air traffic system shutdown, the adverse Norwalk virus publicity last Fall, and recent events in the Middle East. Indeed, while other travel industry segments have sought Government bail-outs, the cruise industry has helped itself. The industry repositioned ships into new markets, restructured itineraries, introduced new vessels, increased promotional advertising, and reduced prices. As a result, and, in close partnership with the thousands of travel agents around the country who now specialize in cruise vacations, the industry set new records in terms of passengers carried each of the past three years. Incredibly, notwithstanding all the foregoing issues, North American market passenger count last year reached a record 7.6M, up almost 10% from the 2001 record of 6.9+M, with average industry utilization of 97%.[39/]

38/ *Compare FF-19 Report* (RCL Exh. 15), 25 S.R.R. at 1476 (RCL0133), *with* RCL Exh. 9.C., at RCL0105.

39/ *See* RCL Exh. 9.C, at RCL0105. Worldwide cruise passenger count on CLIA-member line ships was up an even more impressive 15.5%, to 8.66M passengers (*id.*).

Indeed, not only has the cruise industry survived, it has, in the process, set the stage for future growth. The repositioning of ships to new ports has identified a vast new, drive-and-cruise market demand, which will drive industry growth for years to come. Moreover, the lower costs have attracted a whole new, and broader, generation of cruising passengers, who will further fuel future growth.

Contributing to the industry's success over the past few years has been the continuing consolidation of the industry, which was noted by Commissioner Ivancie as "making the industry somewhat more financially stable" (25 S.R.R. at 1477). As detailed in the accompanying Dibner Report, the industry today centers around four major PVOs – Carnival, RCL, NCL and Disney – which between them account for some 96-97% of all U.S. port passenger departures.[40/] These four PVOs have a combined net worth of almost $40B. All are publicly-traded companies. All publicly report their financial results, and are subject to public disclosure requirements. Their size and financial strength will enable these companies to weather the inevitable market vagaries, as evidenced by their ability to respond so nimbly and effectively to the blows of the last two years.

Of course, as noted in the NPRM, not everyone did as well or prospered during the past few years. A number of small lines, primarily in the so-called "budget" segment of the market, failed and ceased operations. However, as explained in the accompanying Dibner Report, the characteristics and business plans of these failed operators stand in stark contrast to those of the major PVOs, and the failure of these operators does ***not*** suggest similar problems for the large PVOs.[41/] Indeed, much of the problem for the failed operators was their inability to compete with the new, modem, and efficient vessels being introduced by the major PVOs and offering more pizzazz and excitement for the same or lower cost.[42/] It is telling that three of the failures occurred in the latter part of CYOO – long before the events of 9/1 1 – and during a time that the industry as a whole was enjoying a record year of profitability.

In short, the cruise industry is financially much stronger today than it was when the *Fact Finding 19 Report* was issued. The undercapitalized players are gone. Even though they had minimal assets, they did not leave a trail of lost customer deposits. Their antiquated vessels have now been repositioned outside the U.S. market or relegated to the scrap heap.

40/ *See* Dibner Report Part II.A ("Defining the Current Cruise Industry Structure – Structure and Financial Condition of the Major Cruise Lines"), at 9-11; RCL Exh. 1 (RCL), Exh. 4 (CCL), Exh. 5 (NCL) & Exh. 6 (Disney).

41/ *See* Dibner Report Part II.B ("Recent Cruise Industry Failures – Causes and Context") at 11-15, and Apps 4 & 5.

42/ For example, Cape Canaveral Cruise Line's announcement of the line's shut-down specifically cited Carnival's decision to homeport a new vessel at the Port of Cape Canaveral, joining one RCL, one NCL and two Disney ships already operating at that port (Dibner Rpt App. 5, at 18). In addition, and as detailed in the Dibner Report, each of the failed lines also had its own unique problems that contributed to their respective failures (*id.*, App. 5, at 16-25).

Other observations in *the Fact Finding 19 Report* remain valid today, including the findings as to the major PVOs' focus on customer satisfaction and resulting generous cruise cancellation policies,[43/] and the role of P&I Clubs in providing Section 3 coverage for many PVOs, and the fact that the P&I Clubs require full guarantees for such coverage.[44/]

F. RCL and Its Interest in this Proceeding:

RCL was founded in 1969, and is today the second largest cruise company in the world, accounting for some 27% of all U.S. passenger departures. RCL's history is set forth in RCL Exh. 1.C, and highlights the major role that RCL has played in the development of today's modern cruise industry. Key events include:

- the introduction in 1970 of the first passenger ship (the *Song of Norway*) built specifically for warm weather cruising, rather than point-to-point transport;
- pioneered the concept of air/sea vacations, flying cruise guests to Miami from all over North America;
- introduced new services, including on-board fitness programs, amenities, and developed exclusive destination ports of call;
- introduced successive generations of new, larger vessels, with startling new features, culminating in the 1999 entry into service of the first of RCL's four Eagle-Class vessels, the *Voyager* of *the Seas* – the largest cruise ships ever built, at 1,020' in length, 138,000 tons, a passenger capacity of 3,114, and complete with a rock-climbing wall, full-size basketball court and ice-skating rink, in addition to numerous swimming pools, restaurants, lounges and shopping areas (see RCL Exhs l.A & 2.B-D); and
- introduced new, clean and efficient ship propulsion systems, including gas turbine engines on the Vantage Class vessels, and an environmentally-friendly advanced water purification and cleaning system.

RCL today operates two brands – Royal Caribbean International ("RCI"), the world's largest cruise brand, and Celebrity Cruises ("CC") -- both of which are enrolled in the Commission's Section 3 program. RCL operates 25 modern, state-of-the art vessels, averaging 6 years of age, with the capacity to carry a total of 60,794 passengers, and representing an investment in excess of $10B (see RCL Exhs 2.A-G). RCL presently has three additional new ships on order, two of which are scheduled for delivery later this year, and the third of which is scheduled to be delivered next year.

43/ *FF-19 Report* (RCL Exh. 15), 25 S.R.R. at 1477; *compare* RCL Exhs 3.A & B.

44/ *FF-19 Report* (RCL Exh. 15), 25 S.R.R. at 1480.

Last year RCL carried 2,768,475 guests. This represented a 13.5% increase over the prior year (RCL Exh. 1.E, at RCL0011). RCL's occupancy percentage in 2002 was 104.5% (*id.*).[45/] Notwithstanding the very difficult environment in the first quarter of this year, RCL's passenger cruise days count was up 9.2%, and occupancy was at 101.7% (see RCL Exh. 1 .F, at RCL0017C).

RCL's financial performance and strength is set forth in the company's public financial statements (see RCL Exhs l.E & F). Last year RCL achieved record revenues of $3.43B, net income of $35 1M, and earnings per share of $1.79 (RCL Exh. 1 .E, at RCLOOlO). Of particular pertinence to this proceeding, RCL's total customer deposits, as of 12/31/02, were $567.955M (*id.* at RCL0013).[46/] Against this number, RCL had total shareholder equity of $4.035B (*id.* at RCL0010) -- more than seven times the amount of the customer deposits.

Notwithstanding the very difficult operating environment in the first quarter of this year, RCL had revenues of $880.2M (up 10% from 1Q02), net income of $53.2M, and earnings of $0.27/share (RCL Exh. 1 .F). Net yields increased 3.9% from the prior year period.

In short, RCL is financially strong, and doing well in a difficult environment. At the same time, due in part to large ongoing capital investment expenditures in new vessels, RCL's cash position at year-end was only $242.6M, down from $727.2M a year earlier (RCL Exh. 1.E).[47/] RCL has previously committed further capital expenditures of $1 .1B this year, $500M next year, and $1 OOM in 2005.

Under these circumstances, the proposed elimination of the ceiling could have substantial adverse consequences upon RCL's financial condition, and would grind to a halt any plans for future growth and expansion. This would adversely impact RCL's competitive market position, vis-a-vis its top two competitors, both of which are embarked upon substantial capacity expansions.@' Moreover, the proposal would reduce competition in the marketplace and consumer choices, while pushing up the cost of cruising and making it harder to fill ships in difficult economic and political times.

45/ As explained in the Dibner Report, the industry measures occupancy based on lower berths, and does not include upper berth capacity in the same cabins, which can lead to greater than 100% lower berth occupancy data. *See* Dibner Rpt 14 n.13.

46/ This number represents all customer deposits, and is broader than UPR, which is limited by the definition thereof, and excludes, among other things, foreign departures, airfare and land-based excursions.

47/ RCL recently negotiated a new $500M unsecured revolving credit facility, for a term of five years, bearing interest at LIBOR plus 1.75%. RCL also just successfully completed a $250M public offering of Senior Notes due 2010, priced to yield 8-1/8%, to be used for general corporate purposes including capital expenditures. *See* RCL Press Releases dated March 27, 2003 and May 6, 2003 respectively.

48/ *See* RCL Exh. 4.D, at RCL0054, indicating that Carnival is projecting a 42.3% expansion in berths over the next several years, and RCL Exh. 5.D, at RCL0078, discussing NCL's expansion plans.

G. Current Section 3 Program Parameters:

The latest provided FMC data indicates that, as of February 6, 2003, there were 44 cruise lines (brands), operating 175 vessels, in the FMC Section 3 program (RCL Exh. 8). Total UPR as of 2/6/03 was $2,238,636,042. Of this amount, approximately $302M was "covered" under the Section 3 program as of 9/18/02. This leaves a balance of approximately $1.9B uncovered.

According to the FMC Staff at the January 30, 2002 Commission meeting, "roughly one-half of the operators in our program have unearned passenger revenue figures that exceed the [current] $15 million [ceiling]" (Tr. at 10). The FMC has declined to make available UPR information by brand. However, it reasonably can be assumed that the vast majority of the uncovered UPR is allocable to the four major PVO's in view of their dominant share of U.S. port passenger departures.

DISCUSSION

I. The Proposed UPR Ceiling Elimination and Its Potential Impacts:

The NPRM proposes "to ***eliminate the ceiling*** on [UPR] coverage requirements, and to ***require coverage based on the total amount of UPR for all PVOs***" *(67* Fed. Reg. at 66353; emphasis added). For those large carriers "whose fleets consistently have outstanding UPR in the hundreds of millions of dollars" *(id)*, this will result in coverage increases in the ***thousands*** of percent. The NPRM recognizes that "this [increased coverage] could be costly to many in the industry," and specifically acknowledges ***"the tremendous cost and difficulty that may be faced by some PVOs in covering all UPR*** (as currently defined)" (id.; emphasis added).

However, while generically referring to this "tremendous cost and difficulty," the NPRM does not elaborate as to either such "cost" or "difficulty." It therefore is not clear that the Commission understands either the difficulty or the costs involved. During the Commission's October 23, 2002 Sunshine meeting the Staff suggested that this was simply a matter of paying a l-to-2% surety bond fee, although the Staff did note that there might be some "collateral requirements" (FMC 10/23/02 Mtg Tr. at 12). The Staffs comment erroneously assumes that such coverage is readily available, and fails to convey the impact of the referenced collateral requirements.

Importantly, we are not talking here about a $5M coverage increase, such as the increase that the Commission imposed on the industry in increasing the ceiling from $5M to $1 OM in 1982, and again from $10M to $15M in 1991. As the Commission recognized in 1990, even a $5M increase is a substantial burden for cruise lines, since "[clash flows are needed to meet operating expenses and other operational commitments to service debt and are, therefore, not readily accumulated in the short term" (Dkt 90-01, Final Rule; 55 Fed. Reg. 34564; Aug. 23, 1990).[49/] The Commission therefore provided a ***six-month transition period*** before implementing the $5M ceiling increase (*id.*).[50/]

Here, in contrast, for those PVOs that "consistently have outstanding UPR in the hundreds of millions of dollars" (67 Fed. Reg. at 66353), the NPRM is now talking about imposing a many-fold increase -- in the *thousands* of percent range -- in the amount that would be required to be covered. For example, a PVO having UPR (as defined today) of $350M, of which 20% might qualify as EPR, would be required to provide coverage in the amount of $3 15M[51/] – a $300M, or 20-fold (2000%) increase in coverage versus the $15M required under the present ceiling. This effectively is equivalent to requiring a single PVO to reserve and set-aside the entire amount that it would cost to buy one (or, with financing, two or three) large, new cruise ship(s).[52/] Only here, instead of generating revenue, jobs and flow-down economic benefits for the economy,[53/] the money would be sitting idle, earning virtually nothing, while encumbering the PVO's credit-worthiness and ability to borrow funds for other productive purposes.

The first problem is just obtaining the proposed increased coverage. As numerous comments submitted on this issue in the past have made clear, there simply is no available source of bond or guarantee coverage in the huge amounts contemplated by the Proposed Rule, and

49/ As Commissioner Ivancie pointed out in his *FF-19 Final Report,* PVOs "must make a number of purchases for such matters as airline tickets, hotel rooms, rental cars, food, fuel and other supplies . . . [which] are paid in advance of a sailing," and "it is the industry's practice to use . . . [advance passenger payment funds] as working capital" *(id.,* 25 S.R.R. at 1477; RCL Exh. 15, at RCL0134). Commissioner Ivancie also stated that "[i]t is more advantageous for the industry to pay down capital loans and lines of credit, than to deposit funds to earn interest" (*id.*). This last statement is even more true in today's low interest-paying environment.

50/ Significantly, the NPRM says nothing about any phase-in or transition period for implementing the Proposed Rule. This conspicuous omission further suggests that the Commission does not appreciate the full effect and impacts of the Proposed Rule.

51/ This amount is achieved by subtracting the $70M EPR from the gross $350M UPR, which results in a difference of $280M, and then adding the proposed fixed 10% surcharge on the $350M gross UPR – i.e., $35M – to get $3 15M. Please note that the 20% used for EPR is merely for demonstration purposes, and should not be taken to suggest that such percentage is a likely or realistic estimate of any PVO's actual EPR.

52/ Carnival Corp.'s quarterly report (Form 10-Q) for the quarter ending August 3 1, 2002, lists the estimated cost of the 2,114 passenger *Costa Mediterranea*, which has just completed construction at Masa-Yards and been delivered to Costa Cruises, as $355M *(id.* at 7).

53/ In 200 I the cruise industry's contribution to the U.S. economy consisted of $1 1 billion in direct spending by cruise lines and their passengers. Including indirect economic benefits, this direct spending in turn generated $20 billion in U.S. industrial output, producing more than 267,700 jobs throughout the country, paying a total of $9.7 billion in wages and salaries. *See* Business Research & Economic Advisors, "The Cruise Industry: A Partner in North America's Economic Growth," prepared for the International Council of Cruise Lines, at 1-4 (Aug. 2002), a summary of which is set forth as RCL Exh. 11, at RCL0114.

certainly not without having to fully counter-guarantee the same. As comments already submitted in this and prior proceedings by the International Group of P&I Clubs ("P&I Clubs") make clear, the ***P&Z Clubs are not willing to underwrite additional Section* 3 *coverage.***[54/] Thus, the P&I Clubs state that they have provided such coverage in the past only as an accommodation to their members. The P&I Club further note that they require 100% collateral, either through a letter of credit or other bank counter-guarantee.[55/]

Similarly, the Surety Association of America ("Surety Association" or "SAA") previously has advised the Commission as to the limited capacity availability to write such guarantees, which "are classified as financial guarantee obligations" and "considered by surety companies to be ***extremely hazardous obligations*** and ***are underwritten very carefully***."[56/] The Surety Association specifically pointed out in Dkt 94-06 that "the market for PVO bonds is very limited" (SAA 8/15/96 Ltr, at 2). Importantly, the Surety Association emphasized "that the larger the bond amount required, the stricter the underwriting requirements and more difficult it becomes to qualify for the bond" (id.). The Surety Association stated its "doubt that many existing PVOs would be able to immediately qualify for the higher bond amounts," and cautioned that "[t]he end result could be a severe lack of availability of bonds for PVOs which could compel some PVOs to seek other forms of security, or to leave the business" *(id.).*

This limited coverage availability, and the associated high underwriting requirements for any available coverage – essentially requiring dollar-for-dollar backing -- means that the only real option for coverage in the proposed large amounts would be escrow accounts. The costs of such accounts are two-fold:

First, there is the ***out-of-pocket annual cost of the value of the money*** sitting in the account. Such funds effectively must be borrowed at current borrowing interest rates, and then placed into extremely low interest-bearing accounts to provide the required surety. The differential in interest paid on the borrowings and what can be earned on the deposits – likely some

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54/ As the Commission noted last summer in reviewing the comments received in Docket 02-07, the P&I Clubs made "clear that its members would ***not*** be willing to increase their current involvement" in providing security under the Section 3 nonperformance program (FMC Dkt 02-07, Final Rule, 67 Fed. Reg. at 44775; July 5, 2002; emphasis added).

55/ *See* P&I Club Comments dated April 7, 2003, at 1 ("non-performance . . . is **not** a risk covered by Clubs. The Sec. 3 Guaranties have accordingly been provided by the individual Clubs to their Members as a service, and ***only when the Clubs' Guaranty is fully secured by a Bank counter-guarantee*** . . . we do not believe the Club Boards will agree to providing guaranties at the level proposed in the Notice of Proposed Rulemaking;" italicized emphasis added); *see also FF-19 Rpt,* 25 S.R.R. at 1480 (RCL Exh. 15, at RCL0137), confirming this as the long-standing position and practice of the P&I Clubs.

56/ *See* SAA's July 3, 1997 response to the FMC Staff's June 27, 1997 inquiry letter regarding Dkt 94-06 (emphasis added). Importantly, SAA's comments and reservations were made long prior to the events of 9/11, which have resulted in substantially tightened risk assurance availability.

7-8% -- is the annual cost of this requirement.[57] If coverage is required for 110% of the total FMC-reported $2.24B in PVO UPR, this would implicate total coverage of $2.464B. At an average 7 1/2%, this would cost the industry ***some $328.5M per year***.

<u>**Second**</u>, and far more critical and costly, is the ***substantial impairment of the PVOs' liquidity and the lost investment opportunity*** costs entailed in diverting such huge amounts of capital from productive business purposes and essentially parking it in wholly unproductive escrow accounts. This would require PVOs to grind new vessel building programs and expansion plans to a halt, adversely impacting future industry growth and the competitive landscape.

In view of the stated consumer protection purposes of the present proceeding, it is important to note that ultimately it is the consumer that will have to pay the higher costs imposed by the proposed requirement. Moreover, it is the consumer that will face more limited travel options, less competition and choice, if the proposal is implemented.

Tellingly, the American Society of Travel Agents ("ASTA") submitted comments in FMC Dkt 90-01, specifically opposing an earlier FMC proposal to do away with the UPR ceiling. ASTA stated that an "unlimited funding requirement . . . ***would only increase prices without providing a meaningful increase in protection.'@*** ASTA stated that while it is ASTA's policy to generally support consumer protection systems, it does so only where "the protection is commensurate with the risk," so that the consumer, who ultimately must pay for it, is not burdened by "unnecessary costs" ***(id.)***.

While there perhaps could be some circumstances where such higher costs, and other adverse impacts, might nevertheless be worth imposing, this is clearly not one of them, as the past 36+ years of experience well establishes. Indeed, the vast majority of passengers who use their credit card do not need the coverage at all, and certainly would be unlikely to be willing to pay for such redundant coverage if provided the option. Similarly, passengers who have obtained broader coverage through available third-party insurance would not want to also have to pay the costs of this coverage.

As discussed at the outset, passengers have ample choices to protect their own interests. Under such circumstances, there is little justification for the Government to take it upon itself to impose additional protections and costs.

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[57] RCL recently went to the capital markets with a $250M Senior Notes offering, due in approximately 7 years. This offering was priced to yield 8-1/8% (*see* RCL Press Release dated May 6, 2003). This represents a reasonable current cost of borrowing for RCL. Current money market rates are running in the range of 0.35%, although it is possible one might be able to obtain a somewhat better yield on accounts of the contemplated size. However, the bottom line differential is likely to be in the 7-1/2% - 7-3/4% range.

[58] *See* ASTA's April 4, 1990 submission in FMC Dkt 90-01 (emphasis added), discussed and quoted in *FF-19 Final Report,* 25 S.R.R. at 1482 (<u>RCL Exh. 15</u>, at RCL0139).

Neither the statute nor the Commission's mandate thereunder requires such an approach. Moreover, there is no groundswell of public outcry or demand to change a system that has worked well and achieved its purposes for more than 36 years.

Importantly, despite the huge costs of the proposed change, earlier implementation thereof would not have resulted in any greater recovery by Section 3-covered passengers over the years. Moreover, given the strength of today's cruise industry and the major PVOs, it is highly unlikely that this result will be any different in the future. However, the proposal threatens to destroy the industry in the process.[59/]

The bottom line is that, while understandable under the perceived circumstances reflected in the NPRM (which are discussed in detail in Part III below), the proposed elimination of the ceiling is a bad idea that would choke the industry and threaten irreparable harm, for absolutely no benefit to the consumer.

RCL respectfully reiterates its request urging that the Commission undertake a careful cost/benefit analysis that considers all the implications and impacts of the Proposed Rule, before making any decision to go forward with the subject proposals.[60/]

Such a cost/benefit analysis is particularly important here because it is readily apparent from the NPRM that the Proposed Rule does absolutely nothing to solve the only real problem identified in the NPRM. Indeed, that problem already has been eliminated. Thus, the NPRM cites the fact that "five cruise lines that participated in the Commission's program have ceased operations" since September 2000 (67 Fed. Reg. at 66353). However, the NPRM identifies only one of the five lines as possibly resulting in passengers not being fully reimbursed out of carrier assets, existing UPR coverage or FCBA coverage. That single line was American Classic Voyages ("AMCV"), which "had evidenced its financial responsibility by means of self-insurance" *(id).* However, as the NPRM acknowledges, that problem already has been solved by the FMC's elimination last summer of the self-insurance alternative for UPR coverage.[61/] Moreover, as discussed in RCL's recent 5/27/03 comments on the outcome of the AMCV bankruptcy liquidation proceedings, it now appears that the AMCV passengers also will get back their monies.

59/ The Dibner Report provides extensive information concerning the extraordinarily high costs of the Proposed Rule, as well as the lack of a significant benefit to consumers should the Proposed Rule be adopted. That information generally is not repeated in these comments.

60/ *See* RCL's 12/2/02 Rulemaking Regulatory Cmts, at 11-14.

61/ *Id.*, 67 Fed. Reg. at 66353 ("Self-insurance is a coverage option that no longer is permitted"). *See* Docket *No. 02-07, Financial Responsibility Requirements for Nonperformance of Transportation—Discontinuance of Self-Insurance and the Sliding Scale, and Guarantor Limitations, 67* Fed. Reg. 44774 (July 5, 2002).

This outcome simply reinforces the stark discrepancy between the certain high costs and adverse impacts of the proposed elimination of the ceiling vs. the hypothetical, but totally insubstantial and unreal, nominal consumer protection benefits sought to be advanced.[62/]

II. The Proposed Treatment of EPR:

In a stated attempt to partially ameliorate the perceived adverse impact of the proposed increased coverage requirement, and at least avoid the extra costs of double-covering UPR amounts that are subject to the consumer protection provisions of the Fair Credit Billing Act ("FCBA") (15 U.S.C. §§ 1666-1666j), the Proposed Rule proposes to except from UPR those passenger revenues received from credit card charges made within 60 days of sailing ("Excepted Passenger Revenues" or "EPR") (67 Fed. Reg. at 66353-54). Thus, to prove financial responsibility under the Proposed Rule, a PVO would have to give the FMC a surety bond or a guarantee, or escrow, the full amount of the PVO's highest UPR less EPR in the prior two years, **plus** a fixed ten percent surcharge on the amount of such peak UPR unadjusted by EPR.[63/]

While eminently reasonable to avoid double coverage, the exclusion of the identified credit card charges threatens to disrupt existing commercial relationships between PVOs and credit card companies, to the potential significant detriment of the consumer who wants to use credit cards to pay for cruising. Moreover, the proposal does little to reduce the immense increased financial burden that the Proposed Rule would impose on the larger PVOs. In addition, the creation of a new category of information that must be tracked – EPR – imposes new information gathering and reporting requirements, the mechanics and full impacts of which have yet even to be ascertained, much less considered, by the Commission. Moreover, the impact of these proposed changes may not be limited, as the NPRM appears to assume, just to the PVOs. Thus, tracking EPR may also implicate and involve in the required new information gathering and reporting process the many thousands of individual travel agencies selling cruises. These travel agencies also could be adversely impacted, and find that their booking commission payments have to be delayed, if the

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62/ The NPRM also notes that certain passenger vessel interests suggested last summer, in Dkt 02-07, that smaller operators may be at a competitive disadvantage vis-à-vis larger operators by having to bond all of their outstanding UPR under the present rule (67 Fed. Reg. at 66353). Such issue warrants no consideration in this proceeding. First, such consideration is not contemplated by either the statute or the implementing regulations. Second, and conversely to the stated position, the statute and regulations have always contemplated and implemented disparate treatment between the larger, more financially sound carriers which could establish financial responsibility through information or other means, and the smaller carriers, against which the statute was primarily directed, who have always been required to post financial coverage up to the ceiling. Third, the same rule applies to all, and as smaller carriers grow, they will be eligible for and enjoy the benefits of the ceiling. Finally, and perhaps most tellingly, this argument has little to do with consumer protection, and would simply impose higher costs on the large carriers and consumers, without reducing any burden on the smaller carriers.

63/ 67 Fed. Reg. at 66354-55 & 66357-58 (proposed new 46 C.F.R. §§ 540.5 & 540.6(b)). The NPRM characterizes the additional 10% as "a minimum." However, the NPRM's implementation methodology converts it into a surcharge, which effectively further increases the total proposed coverage requirement to ***110% of peak UPR.***

Commission requires full UPR coverage of such amounts, until performance is rendered and complete.

Specifically, the NPRM proposes to exclude certain passenger deposits made by credit card from the coverage requirement. In particular, deposits made by credit card within 60 days of the scheduled departure of the cruise would be excepted from the required UPR coverage. The Commission has long recognized and pointed out the valuable role of available credit card protections in protecting passenger deposits. Thus, the Commission's "Notice to Cruise Passengers" expressly encourages ticket purchasers "to consider paying for their tickets with a major credit card." Moreover, in dealing with passenger vessel financial responsibility issues in connection with past failures, the Commission has routinely recommended that cruise passengers who paid by credit card immediately notify their credit card company of the failure. See, e.g., FMC Press Release Nos. 00-13 & 00-l 5, dated 9/15/00 & 9/22/00 respectively (Premier), and FMC Press Release No. 0 1 - 11, dated 1 O/l 9/0 1 (AMCV).

The present proceeding is the first time, however, that the Commission has proposed going beyond taking "administrative notice" of this general fact,[64/] and now proposes to attempt to account precisely for EPR in determining the amount of the coverage requirement. Two reasons are offered for taking this approach. First, the Commission recognized that eliminating the coverage ceiling would impose "tremendous" costs on the PVOs, and that excepting certain credit card deposits out of the coverage requirement would soften the blow to some extent. Secondly, the Commission noted that passenger protection would not be diminished by excluding certain credit card deposits, since passengers paying by credit card have the right in such circumstances to recover their deposits from the credit card company.

RCL very much appreciates the Commission's thoughtful proposal concerning credit card deposits. RCL specifically agrees that requiring a PVO to cover certain deposits made by credit card would, as a practical matter, result in redundant and wasteful coverage, at the consumer's expense. The FCBA requires credit card issuers to honor certain claims made by their customers against a bankrupt cruise line (like any other bankrupt vendor), and entitles customers to recover their deposits.

The Commission therefore properly has taken general administrative notice, both in the rulemaking context and in advising the cruising public following a PVO failure, as to the possibility that cruise passengers may be able to avoid losing their deposits by using a credit card and submitting timely claims to their credit card issuers. However, the proposal to take this very relevant concept to the next step -- from being one among a number of general facts that the Commission must consider, to specifically folding certain credit card deposits into the UPR

[64/] "The principal of official notice permits an agency to take cognizance of facts similar to those of which a court could take judicial notice. Additionally, administrative agencies are permitted to take notice of generalized facts within their areas of expertise." 4-25 ADMINISTRATIVE LAW § 25.01 (LEXIS 2003).

formula -- may cross a line into interfering with commercial relationships that it is neither necessary nor desirable to cross.

In this regard, it is one thing for a government agency to take notice of the fact that the FCBA provides consumer protection in certain circumstances. However, it is another thing altogether for the agency to incorporate such protections into a formula and publish the results in official regulations concerning that agency's responsibilities. Such a step raises potential legal issues that may affect the Commission, other government agencies, credit card issuers, PVOs and consumers. It may strain relations between credit card issuers and the PVOs, who instead of seeking to facilitate the growth and expansion of the cruise industry, may be forced to focus otherwise unnecessary attention on their respective rights and liabilities under the FMC's rules. Changes in the rules of other agencies, or in commercial practices in the consumer credit industry, may force further changes to the FMC's approach.

Moreover, cranking credit card deposits into the coverage formula would impose a very substantial new burden upon PVOs, the travel agents and others with whom they work, and possibly even the credit card companies and the Commission itself, to track and account for credit card deposits. Current business and accounting practices within RCL (and we suspect the other major PVOs) are not configured to capture information concerning what is or is not EPR or an FCBA-covered credit card deposit. Travel agencies, which are the front line sales and transactional interface between RCL and most of its customers, certainly are not so equipped. It would be very challenging at best to develop systems that could consider all of the relevant variables.

Finally, the NPRM's definition as to the scope of legal protection afforded under the FCBA is not correct. On the one hand, FCBA protection is substantially broader than the Proposed Rule's EPR definition. Proposed Section 540.2 would define "EPR" as only encompassing customer payments made "within 60 days of the date the passenger is scheduled to embark." Note that this specified definition runs backwards from the date of the booked cruise. The FCBA runs the other way, and provides protection for payments made within 60 days after the customer's receipt of the billing statement containing the questioned charge. Moreover, FCBA coverage generally is triggered at the time the merchant declares bankruptcy, which may precede by weeks or months the date of embarkation (which is the time of the bankrupt merchant's failure to render promised services).[65/] Assuming that credit card charges are spread evenly throughout the month, and are made an average of 15 days before the billing statement is received, the applicable period should be 20% longer (from 60 to 75 days) than what the NPRM proposes, and should work in reverse from the date of the charge. In short, if FCBA coverage is to be used in a formulaic

[65/] *See* Official Comments to Regulation Z, Section 226.12(c) (noting that the consumer is not required to file a claim against a merchant in bankruptcy proceedings).

manner, full recognition of the legal coverage afforded under the FCBA would dramatically expand the universe of the deposits that would be excepted under the Proposed Rule.[66]

On the other hand, credit card issuers have several potential defenses to claimed FCBA refunds. Each FCBA claim potentially triggers a detailed factual investigation, and legal arguments that ultimately may absolve the credit card issuer of liability. Credit card issuers may well be concerned that their rights to defend against such claims could be compromised by the FMC's proposal, and in any event, that consumers may not be as uniformly protected as is assumed in the FMC's oversimplified treatment of the issue.

For all of these reasons, the Commission's proposal to except credit card deposits out of the UPR coverage requirement simply is not up to the task of ameliorating the tremendous costs on the industry and the cruising public that would result from eliminating the UPR ceiling. While the Commission is correct in recognizing the effects of FCBA coverage on the cruise industry, and while such coverage generally is appropriate "information" to consider in demonstrating cruise line financial responsibility, incorporating it into the rule as proposed raises unnecessary and complex issues, and dramatically increases the administrative burden on the industry. By withdrawing its proposal to eliminate the UPR ceiling, the Commission can also resolve these concerns.

III. <u>There Are No Changed Circumstances that Justify the NPRM Proposals.</u>

It is well-recognized that an agency may not depart from consistent past interpretation and practice without good cause and well-reasoned analysis. See, e.g., *Motor Vehicle Manufacturers Association v. State Farm Mutual Automobile Ins. Co., 463* U.S. 29, 42 (1983) ("an agency changing its course . . . is obligated to supply a reasoned analysis for the change"); see *also Greater Boston Television Corp. v. FCC, 444* F.2d 841, *852* (D.C. Cir.), *cert. denied, 403* U.S. 923 (1971) ("an agency changing its course must supply a reasoned analysis indicating that prior policies and standards are being deliberately changed, not casually ignored").

Here, there simply are no changed circumstances or other valid reasons identified in the NPRM for either the proposed elimination of the UPR coverage ceiling or the imposition of the proposed mandatory ADR proceedings. The NPRM suggests that there has been "a dramatic shift" in the prior scenario, and mentions several different "indicator[s] of concern" that apparently are driving the proposal to eliminate the UPR ceiling (67 Fed. Reg. at 66353). Each of the identified "indicator[s] of concern" will be addressed in turn. As will be demonstrated, none comes remotely close to justifying the proposed actions.

66/ By simply aligning the 60-day EPR cut-off date with the date of the charge, rather than the scheduled date of departure, the universe of credit card charges for RCL cruises that would be within EPR nearly triples, to more than 50% of UPR. Further, we understand that many credit card issuers voluntarily provide extended coverage to their customers for various reasons. While there may be no legal right to this extended coverage, it could, as a practical matter, expand the universe to 75% or more of RCL's UPR.

A. The Cited Cruise Line Failures:

The principal factor apparently driving the NPRM is the cited recent cruise line failures – five PVOs that participated in the FMC program (Premier Cruise Operations Ltd. ("Premier"), New Commodore Cruise Lines, Inc. ("Commodore"), Cape Canaveral Cruise Lines, Inc. ("Canaveral Cruise"), MP Ferrymar, Inc. ("Ferrymar") and AMCV), and two other carriers having only foreign departures and thus outside the FMC program (Renaissance Cruises, Inc. ("Renaissance"), and Great Lakes Cruises, Inc. ("Great Lakes Cruises")). (67 Fed. Reg. at 66353.)[67/]

The NPRM suggests that these failures were due to changed economic circumstances in the industry, and reflects a fear that such failures may be a harbinger of worst disasters to come. As demonstrated in the accompanying Dibner Report, such suggestion and fears are both wrong. These failures were due primarily to the failed business strategies and specific circumstances of each respective cruise line. While there are a number of similarities among several of the failed lines, these considerations do not apply to most of the remaining PVOs, and certainly not to the large PVOs that are the object of the present proposal.@'

Two of the cited failures are not really even cruise lines, and their failures certainly have no bearing upon the success of legitimate cruise lines. The first of these is Ferrymar, which apparently operated a single vessel, the *Ferrymar*, in an overnight ferry service between San Juan, Puerto Rico and the Dominican Republic (Dibner Rpt at 12). The second is Great Lakes Cruises, which was a single-vessel charter operation attempted by a ***travel agency*** on the Great Lakes – precisely the type of operation at which Section 3 was directed, except that Great Lakes Cruises proposed to operate only out of foreign ports and thus was outside the FMC's jurisdiction *(id).* As detailed in the accompanying Dibner Report, Great Lakes Cruises encountered serious problems with health authorities with its chartered Greek vessel, and subsequent adverse publicity killed the proposed operation *(id.,* App. 5, at 19-21). Like Ferrymar, this example provides no guidance whatsoever as to legitimate cruise line operations.

67/ Interestingly, virtually every FMC Notice of Proposed Rulemaking dealing with the UPR ceiling over past years has noted similar cruise line failures as a principal factor motivating the proposed rulemaking. *See, e g.*, the original NPRM in Dkt 94-06 (59 Fed. Reg. 15 149; 3/3 1/94), citing the involuntary bankruptcy of American Hawaii Cruises, and the further NPRM in Dkt 94-06 (61 Fed. Reg. 33509; 6/26/96), citing the bankruptcies of Gold Star Cruises, Regency Cruises and Palm Beach Cruises during the prior 18 months. *See also* the Final Rule in Dkt 90-01, increasing the UPR ceiling to $15M (55 Fed. Reg. 34564, 34567; 8/23/90) ("The most recent passenger vessel failures have involved new or small operators," citing the failures of Aloha Pacific Cruises, American Cruise Lines, Exploration Cruise Lines and Great Pacific Cruise Lines). There thus is nothing very remarkable about the failure of a number of smaller cruise lines with no unique market identity and operating aging vessels, and such certainly does not provide justification for the present proposal.

68/ *See generally* Dibner Rpt Part II.B, at 11-13 & App. V.

Most of the other failed lines (as well as the more recently failed Regal Cruises) were small operators with only one or a few ships. Also, these lines participated in the so-called "budget" segment of the market, operating older vessels, with only limited brand identity. Finally, most of these lines had extremely limited equity and resources.

Specifically, Premier, Canaveral Cruise, and most recently Regal Cruises, all followed a failing business strategy, operating antiquated vessels that simply could not compete with today's new fleets and economies of scale. Significantly, the first two lines failed in September 2000 – a full year before 9/1 1 – and right in the middle of the industry's best year ever. Both operated out of Cape Canaveral, where they could not compete with the massive new competition at that Port from the major PVOs. Canaveral Cruise specifically cited Carnival's decision to homeport a vessel at Canaveral, on top of other recently introduced competition by the other major PVOs, as a major consideration in the decision to stop operating after encountering mechanical problems with its only vessel (Dibner Rpt App. 5, at 17-18). Premier had lost its long-time affiliation with Disney, which had introduced two brand new vessels into Canaveral in direct competition with Premier, and Premier simply was unable to find a viable new market niche (id., at 21-24). Regal was already for sale, when its single vessel was arrested for non-payment for certain vessel repairs.

AMCV and Commodore attempted massive fleet conversions with inadequate finances and business plans. AMCV, which was operating aging vessels pending its new buildings, suddenly faced unexpected competition from modern vessels in its Hawaii market, and was facing serious problems with the construction of its new vessels, when 9/1 1 shut-down its air link to the mainland (id., at 16-17). Renaissance operated only outside the United States, and for years had pursued a policy of not dealing with travel agents. Like AMCV, Renaissance was hit hard by 9/1 l's impact on overseas air travel (id. at 24-25) .

As detailed in the Dibner Report, these failed cruise lines have virtually nothing in common with the major PVOs. Their vessels were much older, and generally much smaller, than the new ships operated by the major PVOs. Comparison of the financial strength of AMCV and Commodore – the only two of the failed lines that were publicly-held – demonstrates a vast disparity with the major PVOs. Thus, the passenger deposits of the two failed carriers equaled some 40% and 60% respectively of their equity months before they failed. This stands in stark contrast to the typical 1 0-14% for the major PVOs (see Dibner Rpt at 11).

In short, the failure of these various companies is generally consistent with historical patterns and has no relevance to the possible failure of one of the major PVOs or other substantial cruise lines that have invested in new fleets. Certainly, these failure do not provide a basis for the proposed elimination of the ceiling since, as the NPRM acknowledges, all of the passengers on the covered Section 3 PVOs got their money back. The only possible exception at the time the NPRM was issued was AMCV, which was still in ongoing bankruptcy proceedings. However, as discussed in RCL's recently-filed comments, it now appears that all of AMCV's customers will get their money back. Moreover, they certainly would have been more than fully protected had

AMCV been required to maintain the same $15M coverage now required of all carriers, in the aftermath of the elimination of self-insurance.

B. The Difficult Economy and 9/11:

A related concern raised by the NPRM is the perceived difficult "economic circumstances of the past few years and the decline in tourism after the events of September 11, 2001" (67 Fed. Reg. at 66353). This concern appears to be based upon out-of-date and incomplete information. While it may be true that there has been a general decline in tourism since 9/11, the one true bright light and exception in the travel industry has been cruising, which has fully recovered from the shock of 9/11 to hit record passenger counts last year.

The cruise industry hit its low right after 9/11. However, even then the industry showed a strong resilience. On 9/11/01 – notwithstanding the awful trauma of that day, and in the midst of dealing with the turmoil of trying to find arrangements for some 50,000 disembarking passengers, and help newly arriving passengers – RCL took ***11,000 new reservations*** for future cruises. RCL and the industry started a steady recovery from there, and through aggressive, proactive actions, including vessel repositionings, marketing and price cuts, the major PVOs staged a remarkable comeback.

Contrary to the apparent concern expressed in the NPRM, the cruise industry's strong fundamentals, resilience, marketing creativity and ability to survive, and even prosper, in a difficult economic environment, has been amply demonstrated over the past 20 months as the industry bounced back from 9/11 to carry a record 7.6M North American passengers in CY02. This strength has again been demonstrated in recent months, as the cruise industry has successfully coped with the uncertainties of the Middle East political situation and war.

Indeed, not only did the industry survive, it discovered new markets and potential that will fuel future growth for years to come. The stated concerns thus are demonstrably without basis.

C. Industry Consolidation:

The next identified concern in the NPRM is the continuing industry consolidation (67 Fed. Reg. at 66353). It is unclear from the NPRM why this is perceived as a source of concern, at least as to the major PVOs that are the product and survivors of such consolidation, and apparently are now the target of the Proposed Rule.

As recognized in *Fact Finding 19,* consolidation results in a smaller group of financially stronger and more stable survivors (25 S.R.R. at 1477). Certainly that is the case here, where the cruise industry is now dominated by four large, financially sound, publicly held companies. Each of these four companies has invested substantial amounts in new, state-of-the-art vessels. Each has well-recognized market brands and identity. And each has substantial net worth and resources to ensure future success (unless the Commission, through ill-advised action in this proceeding, throws the industry into financial chaos).

This smaller group of financially strong and stable companies is far better situated to withstand and respond to changing economic and industry circumstances. These events should be viewed as a source of strength, and not of weakness. However, the smaller number of survivors does suggest that the Commission should act with caution to ensure that any action it may take does not disrupt the competitive status within the industry, and inadvertently favor one or more players.

D. The Increasing Size and Number of Vessels:

The next cited concern is the increasing size and number of vessels (67 Fed. Reg. at 66353). Again, the NPRM's concern is misplaced. The industry's recent and committed growth in the size and number of vessels is consistent with historical growth. Moreover, such growth is necessary to meet demand and the developing and growing "drive and cruise" markets. Indeed, the new vessels are the harbingers of a new era of growth for the cruise industry.@'

As discussed above, the industry absorbed the new tonnage that came on line last year, and averaged 97% utilization. RCL achieved more than 104% occupancy, and continued at more than 100% occupancy even in the difficult 1Q03 market environment.

E. FMC Passenger Complaints:

The next cited "indicator of concern" is "the number of complaints received by the Commission," characterized as "several hundred complaints per year" (67 Fed. Reg. at 66353). In order to better understand this issue, RCL has undertaken a detailed examination of all passenger

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69/ Rather than being "an indicator of concern," as suggested in the NPRM (67 Fed. Reg. at 66353), the commitments to this new capacity reflect the continuing vitality and growth of the cruising industry, and cruise management's belief and commitment thereto. Such continuing growth is consistent with past trends. As noted by Commissioner Ivancie in 1991, "During the last decade [i.e., 1981-90], there was an average growth rate of 7.5% in new berths," and "[t]his pattern of new construction [wa]s expected to continue at least for the next five years" (*FF-19 Report,* 25 S.R.R. at 1476). It was the industry's commitment to such continuing growth at that time which enabled the industry to double the number of passengers served from 3.7M in 1990 to an estimated 7.6M last year. The same is true now. Indeed, the present capacity growth is necessary to keep pace with the continuing growth in the number of cruise passengers, and to serve the new "cruise and drive" markets which have been developed and are rapidly expanding at non-traditional cruise ports all along the U.S. coastlines since 9/11 (*see* "Cruises Offer Better Vacations from More Ports," ItCis telling l(that, far from trying to stretch-out, defer or cancel new s h i p commitments in the post-9/11 market (as has been the trend in the airline industry), several PVOs, including RCL and Carnival, actually have ***accelerated deliveries*** and/or committed to buying ***additional new ships*** since 9/11. However, the capital commitments that have been obligated to pay for such new buildings over the next few years leave little room for the industry to try to absorb the huge new capital obligations implicit in the Proposed Rule.

complaints received by the Commission for the six years from 1997-2002. The results of this analysis are set forth in RCL Exh. 7 and the Attachments thereto.

RCL's analysis of FMC Case Log docketed passenger complaints (including Congressional complaints) shows that they have been driven largely by the above-discussed failed cruise line nonperformance issues and passengers who simply did not know where to submit their claims. Thus, many wrongly turned initially to the FMC. For example, 452 Premier passengers filed complaints at the FMC within the first 30 days of Premier's cessation of operations (see RCL Exh. 7, at 2; RCL0084). Once these passengers were told where to file their claims, that generally was the end of the matter from the FMC's point of view.

Moreover, overall passenger complaints peaked two years ago in 2000, and have dropped sharply from that peak in each of the past two years, notwithstanding the failure of three additional cruise lines in CY01 (RCL Exh. 7, at 2; RCL0084).

If the failed cruise line complaints are removed from the mix, the other filed passenger complaints have remained in a relatively narrow range for the past three years, averaging approximately 173 complaints per year *(zd.,* at 3; RCL0085). This number is *de minimis* in the context of an average of more than 7.0M passengers per year. Indeed, given the rising number of passengers, it actually reflects a declining ratio per 100,000 passengers since CYOO *(id.,* Attmt 3; RCL0089B). Moreover, the vast majority of these complaints are outside the Commission's jurisdiction, as the Commission has repeatedly informed Members of Congress in responding to their inquiries with respect to some of the complaints *(id.,* at 6 (RCL0088); *and see* RCL Exh. 16).

More telling are the industry's consistently high passenger satisfaction ratings and the numbers of repeat customers. As set forth in RCL Exh. 7, the passenger complaints, when properly understood and analyzed, and placed in perspective of the overall number of passengers served, simply do not indicate a problem that would be addressed or resolved by any aspect of the Proposed Rule. Such complaints therefore do not provide a basis for proceeding with the proposed actions.

F. The Congressional Inquiries:

Finally, and in a related vein to the above-discussed passenger complaints, the NPRM cites "an ever-increasing number of inquiries from members of Congress about problems experienced by their constituents" (67 Fed. Reg. at 66353). Again, RCL has undertaken a careful analysis of every Congressional inquiry recorded in the FMC's Case Log for the past six calendar years (see RCL Exh. 7, at 4-6 & Attmts 4-5).

This analysis indicates that, while no doubt politically sensitive, such inquiries again do not indicate a substantial problem. First, the total number of such inquiries is small, averaging less than 27 per year for the past three years – a frankly *de minimis* number in the context of an average

7.0+M passengers. Second, it is not true that the number has been "ever-increasing." Rather, like the broader passenger complaints, the number peaked in CYOO, and has been less in each of the two years since then.

Significantly, less than three inquiries per year have related to true nonperformance issues within the scope of Section 3. The balance of the inquiries relate to a broad range of passenger complaints, virtually all of which the Commission has advised the respective members of Congress are outside the FMC's jurisdiction, or as to which the Commission has no authority to grant relief (see, e.g., RCL Exhs 16.A-E).

In short, these Congressional inquiries do not support the proposed rulemaking actions, and certainly would not be resolved thereby, given the scope of the Commission's jurisdiction and authority in this area.

IV. The Mandatory ADR Proposal Should Be Rejected.

The foregoing discussion provides a natural transition to the NPRM's proposed mandatory ADR process, since such presumably is in large part motivated by the perceived number of passenger complaints received. However, as discussed above, and demonstrated in RCL Exh. 7, the passenger complaints and Congressional inquiries simply do not provide a basis for the proposed mandatory ADR. Moreover, such proposal is ill-conceived, impractical and far exceeds both the Commission's authority and practical capabilities. Most importantly, the proposal would improperly, and counter-productively, insert the Commission into the middle of long-established commercial processes and relationships that generally have worked extraordinarily well, with real danger and risk to the entire system, and no perceivable real benefit to the consumer, which would merely be trading one forum for another. The proposal therefore should be rejected.

As discussed at the outset of these comments, cruise lines are extremely sensitive and responsive to customer complaints, since brand protection and reputation are crucial. The major cruise lines all have large customer relations departments to resolve complaints. As determined by Commissioner Ivancie in *Fact Finding 19*, the cruise lines generally go far beyond what they are legally required to do, including offering future cruise discounts in addition to refunds, in order to satisfy customers as to infrequent nonperformance problems. For example, RCL recently had to cancel several voyages of one of its Celebrity Cruises vessels sailing out of the West Coast to Hawaii due to an unexpected mechanical problem. RCL provided full refunds, and also gave each booked passenger a coupon good for a 50% discount on a future cruise. RCL also honored all travel agent commissions. (See RCL Exh. 3.A.)

However, cruise lines must deal with all comparably situated customers equally, and cannot start cutting special deals for each individual customer – a fact not always properly understood by every individual customer. (See RCL Exh. 3.B.)

From a legal perspective, the Commission does not have authority to impose mandatory ADR as a pre-condition to a PVO participating within the Section 3 program. ADR is supposed to be voluntary, not mandatory. Moreover, the Commission's jurisdiction in this area is limited to nonperformance covered by Section 3. The Commission cannot use its jurisdiction under Section 3 to leverage jurisdiction over other passenger complaints.

To the extent the proposal reflects frustration over the time it takes to resolve true nonperformance claims, whether under a FMC bond or in a bankruptcy, the proposal is understandable, but misdirected. Such delays are not within the control of the failed PVO, which in all likelihood no longer exists at that point. Moreover, the proposal would disrupt and delay normal commercial claims processing procedures, and result in preferential treatment to those tiling claims at the FMC, all at huge expense and burden on the FMC and commercial claims processors.[70/]

To the extent the proposal is intended to encompass other than Section 3 nonperformance claims, such claims are outside the FMC's jurisdiction, as the FMC long has recognized. Moreover, adequate commercial and legal avenues already exist to resolve such claims. There has been no showing of need to justify the proposed alternate approach. To the contrary, the NPRM proposal would inject the Commission into the middle of the PVO/passenger relationship, and run the danger of making the Commission the "court of first resort" for passenger complaints.

It may be worthwhile in this regard to consider the Commission's experience with shipper complaints for nonperformance under OTI financial responsibility instruments, i.e., freight forwarder and/or NVOCC bonds. Briefly put, the Commission is charged under the Shipping Act of 1984, as amended, to protect the interests of claimants (typically shippers), OTIs, and financial responsibility providers (typically surety companies underwriting the OTI bonds). Recently, the Commission addressed its duties to the shipping community with respect to OTI financial responsibility instruments for nonperformance.[71/] The Commission found that, in the OTI context, the "[c]laimant may very well be oblivious even to the existence of a bond, in which case it would likely take the only expected course of action, *i.e.*, suing the OTI in state court." Additionally, the Commission commented that it must ". . . be careful not to place oppressive burdens on the claimants, because many shippers who are not regulated entities would not necessarily be aware of the claim procedures in the shipping statutes or the Commission regulations." [72/] The Commission

70/ The Commission should investigate the extent to which imposition of these additional costs and burdens may have on the availability of coverage, as well as the costs of the same. The Commission also should consider the delay impact on other claims, as well as the potential problem, and consequent overwhelming workload, of the proposed ADR process becoming the avenue of first resort if it works at all.

71/ *See Petition of American Surety Association & Kemper National Insurance Companies for Reconsideration of the Final Rule,* FMC Dkt 98-28 (Aug. 18, 1999).

72/ *Id.*

fashioned its OTI bond claim review rules and procedures in accordance with a claimant's right to seek resolution of a claim in a variety of different forums-including using the FMC's ADR procedures.

This experience would suggest that the Commission should avoid a mandatory process here, and certainly should not foreclose PVOs and sureties from other existing avenues of recourse. The proposed mandatory resolution system will adversely affect both the cruise consumer and cruise lines. Moreover, the Commission lacks the personnel and experience to get bogged down in such an effort.

In short, this proposal would take the FMC very far from its statutory mandate and inject the FMC into the middle of commercial claims resolution and disputes processes where there is neither a demonstrated need nor sufficient statutory authority for the NPRM's proposals.

V. Other Issues:

In addition to the major issues discussed above, the NPRM raises a number of other issues that need to be addressed and clarified.

A. Definition of UPR:

The current definition of UPR is unclear and needs clarification. It is unclear precisely what is required to be included in, or excluded from, UPR. This poses problems not only for PVOs in tracking and reporting UPR, but also for claims processors in trying to ascertain what amounts should be reimbursed under the Section 3 performance coverage, and for passengers who should know what they properly are entitled to recover (and what they cannot recover).

While the Commission's jurisdiction is limited to the sea transport portion only, the FMC Staff has from time-to-time suggested that the revenues from land and air portions of combined packages also should be included in UPR under at least certain circumstances.[73/] Moreover, there may be some uncertainty with respect to shipboard services that may be paid in advance (e.g., spa reservations), and for advance booked shore excursions.

The Commission should take this opportunity to set forth a clear set of detailed guidelines, so that all interested participants can clearly understand what is, and what is not, UPR. The Commission should make clear that UPR is limited to ocean transportation and related on-board accommodations, services and facilities, and does not include optional extra charges such as

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73/ The Commission stated in 1992 that it did not need to obtain public comment on these issues, and suggested that the Commission was going to resolve these issues within the agency (*see* 57 Fed. Reg. 19097, at n.8; May 4, 1992). However, the Commission has not subsequently spoken on these issues, and the industry continues to await, and need, the Commission's guidance and direction, particularly if some increased coverage is to be required.

drinks, optional on-board services and shore excursions, much less pre- or post- cruise travel and accommodations.

B. Why 110% of UPR?

The NPRM speaks in terms of establishing a "minimum" level of coverage at 10% of UPR plus EPR. However, the NPRM then makes a quantum jump, and converts this "minimum" into an "add-on" that lifts the initially discussed 100% UPR coverage to 110%. It is not clear whether this was intended. However, there is no rationale for imposing 110% coverage, particularly of a number that already represents the "highest" number in the prior two years. Given seasonality trends, as well as the likelihood that a financially troubled line is unlikely to have its UPR at the highest point of the prior two years, there is absolutely no basis for this "added" layer of coverage.

C. Simplification of Record-Keeping and Reporting:

The entire tracking and reporting system is unduly burdensome, even without the proposed addition of the requirement to track and report EPR. Specifically, there is no apparent purpose or benefit in requiring respondents to track and report UPR/EPR essentially on a daily basis.[74/] RCL respectively submits that the FMC could substantially simplify the process by simply requiring a month-end or other consistent number. The two-year period provides a more than sufficient statistical base to provide a degree of confidence and balance, and is sufficient to meet any legitimate need. Indeed, it is interesting to note that the FMC's proposed standard form escrow agreement only requires business week-end (i.e., once a week) recomputing of UPR (see App. A, ¶ 7; 67 Fed. Reg. at 66369).

Moreover, as discussed above, the entire proposed requirement to track and report EPR is extremely burdensome. Few, if any, PVOs have systems which today track, or easily permit tracking of, EPR." This is particularly true with respect to cruises that are sold directly by travel agencies for their own account, as part of a combined travel package which they put together. In such instances, the PVO may not have any information as to how payment was made, and the proposed information gathering and reporting requirements therefore would need to be flowed down to the travel agencies to pick-up this data.

74/ *See* proposed 46 C.F.R. § 540.5, which specifies that UPR coverage will be tied to "the date" reflecting the "greatest amount of [UPR]," and the possibly *different* "date" reflecting "the greatest amount of [UPR] plus [EPR]" (67 Fed. Reg. at 66357). *See also* proposed 46 C.F.R. § 540.8(b), requiring quarterly reporting of "the highest [UPR] and the highest [EPR] accrued for each month in the reporting period" (67 Fed. Reg. at 66358).

75/ As discussed above, the NPRM does not state the basis for the proposed definition of EPR, and it is unclear why such definition is not at least co-extensive with the minimum protection provided by the FCBA, which extends at least to all charges made within 60 days of the customer's receipt of the relevant statement containing the credit card charge.

D. <u>Clarification of the "Partial Ship" Charters Exclusion</u>:

For a number of years, the regulations have contained a UPR exemption for certain whole ship charters. The NPRM proposes to add a similar exemption for certain "partial ship" charters. However, the NPRM proposal is unduly vague and unspecific, and needs clarification. Specifically, the proposed definition fails to define what constitutes a "significant" part of a vessel's passenger accommodations under proposed 46 C.F.R. § 540.2(j)(i) (67 Fed. Reg. at 66357), so as to qualify for the new exemption from UPR. Moreover, this definition does not comport with any commonly understood industry term. It would appear that a much broader definition, incorporating a standard industry understanding of "group" bookings, would be more appropriate.

E. <u>Transition Period Rules</u>:

Finally, to the extent that the Commission determines, notwithstanding the foregoing comments, to proceed with some increase in UPR coverage, the NPRM is conspicuously silent as to any timetable for implementing the same. RCL respectfully urges the Commission to recall its prior comments and experience in connection with Dkt 90-01, and to phase-in any increase gradually and over a reasonable period of time. Given the sensitivity of today's travel environment, as well as pre-existing capital expenditure commitments by the major PVOs over the next several years in connection with their ongoing fleet expansion programs, the Commission needs to act carefully, so as to not upset the market.

<u>CONCLUSION</u>

In conclusion, the Proposed Rule, and particularly, the proposed elimination of the cap on required UPR coverage, if adopted, would have severe, adverse impacts on the entire cruise industry, including not only the major PVOs, but also the many small business travel agencies, suppliers and service providers which work with and are dependent upon the cruise industry. These impacts have not been properly understood or considered by the FMC in connection with the present proposed rulemaking.

RCL requests that the Commission carefully investigate and consider the same before proceeding with the proposed major reversal in long-standing Commission policy. RCL further requests and urges the Commission to undertake a full and thorough cost/benefit analysis with respect to the Proposed Rule and all regulatory alternatives thereto, before making any determination to proceed with the Proposed Rule or any variant thereof. RCL believes that the present system has worked well to protect consumer interests at a reasonable cost, and RCL urges the Commission to reaffirm its past findings and to continue to retain the ceiling on UPR coverage at an appropriate amount.

Finally, RCL urges the Commission to reject the proposed mandatory ADR process. If the Commission believes that steps are necessary to reduce delays in the processing of Section 3 nonperformance claims by surety processors, then the Commission should develop an appropriate, narrowly-targeted response. However, the proposed process threatens to merely add a new level of delay and disruption to an already sufficiently difficult process. The Commission should reject any proposal to impose ADR with respect to other complaints.

RCL very much appreciates the Commission's anticipated careful consideration of these comments and these important issues. RCL looks forward to the opportunity to further present its position, and to answer any Commission questions, at the scheduled June 11, 2003 Public Hearing.

Please contact the undersigned in the interim if you have any questions regarding this filing.

Respectfully yours,

Hopewell H. Darneille III

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Ashley Craig

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FMC Bureau of Consumer
Complaints & Licensing

TABLE OF RCL EXHIBITS

A.	CCL Corporate Profile	RCL0043-45
B.	CCL – Balance Sheet Highlights (1 1/1/02)	RCLO046
C.	CCL 1403 Earnings Report (3/21/03)	RCL0047-52
D.	CCL/Princess Pro Forma (SEC Form 425, filed 2/19/03)	RCL0053-71

5. Star Shipping/Norwegian Cruise Line ("NCL"):

A.	NCL/Orient Line	RCL0072-73
B.	Star Shipping – History	RCL0074-76
C.	*Norwegian Dawn* (MarineLog, 2/03 Cover Page)	RCLO077
D.	"Star Cruises plans development of US-flagged fleet" (Lloyds List.com, 2/24/03)	RCL0078
E.	Star Cruises Ltd. Financials (12/3 1/02)	RCL0079-82

6. Disney Cruise Line ("Disney"):

A.	(Walt) Disney Corp. Financials (9/30/02)	RCL0082A-C

7. RCL's Analysis of FMC Passenger Complaints, 1997-2002:

Analysis Memo	RCL0083-0088
Attmt 1 – Chart Summarizing FMC Passenger Complaints	RCL000089
Attmt 2 – Graph Chart Depicting FMC Passenger Complaints	RCL000089A
Attmt 3 – Chart, Passengers Per Complaint & Per 100,000 Passengers	RCL000089B
Attmt 4 – Chart Summarizing Congressional Inquiries, 1997-2002	RCL000089C
Attmt 5 – Chart, Breaking-Out Congressional Inquiry Subjects, 1997-2002	RCL000090

8. FMC Corporate PV Fleet List (2/06/03) RCL009 l-l 00

9. Cruise Industry Performance – 2002:

A.	"Cruise Industry Rebounding at Record Pace in 2002" (CLIA, 9/1 0/02)	RCL0101-02

ORIGINAL

BEFORE THE
FEDERAL MARITIME COMMISSION

In re **PASSENGER VESSEL FINANCIAL RESPONSIBILITY** **NOTICE OF PROPOSED RULEMAKING.**	**FMC Dkt 02-15**

I

ROYAL CARIBBEAN CRUISES LTD.
EXHIBITS IN SUPPORT OF COMMENTS ON THE PROPOSED RULE

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May 30, 2003

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6.	**Disney Cruise Line ("Disney"):**		
	A.	(Walt) Disney Corp. Financials (9/30/02)	RCL0082A-C
7.	**RCL's Analysis of FMC Passenger Complaints, 1997-2002:**		
	Analysis Memo		RCL0083-0088
	Attmt 1 – Chart Summarizing FMC Passenger Complaints		RCLOOO089
	Attmt 2 – Graph Chart Depicting FMC Passenger Complaints		RCL000089A
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8.	**FMC Corporate PV Fleet List (2/06/03)**		RCL0091-100
9.	**Cruise Industry Performance – 2002:**		
	A.	"Cruise Industry Rebounding at Record Pace in 2002" (CLIA, 9/10/02)	RCL0101-02

B. "Over 2 Million Cruisers Sail in Third Quarter; Industry on Pace for Record-Breaking Year" (CLIA, 12/6/02) RCL0103-04

C. "CLIA Lines Host 8.66 Million Cruise Vacationers in 2002" (CLIA, 3/4/03) RCLO 105-06

10. Cruise Industry Expansion to New Ports:

A. "Cruises Offer Better Vacations from More Ports" (CLIA, 1 0/22/02) RCL0107-09

B. "Cruise Industry Brings in 2002 with New Ships, Innovations Close-to-Home and Worldwide Ports" (CLIA, 1/3/03) RCL0110-12

11. "The Cruise Industry – A Partner in North America's Economic Growth" (ICCL, 08/02) RCL0113-18

12. Chronology – FMC Passenger Vessel Financial Responsibility RCL0119-124

13. "Viewpoint – The FMC Bond: Does It Really Matter?" *(Seatrade Cruise Review,* pg. 95; March 2003) RCL0125

14. Summary of NPRM Comments (thru 5/23/03) RCL0126-31

15. Passenger Vessel Financial Responsibility Requirements, Report to the Commission, FMC Fact Finding Investigation No. 19, 25 S.RR. 1475 (4/11/91) RCL0132-45

16. FMC Passenger Complaint Inquiry Responses To Congress

A. Letter of 03/27/97 to Representative Kelly RCL0146

B. Letter of 07/1 5/98 to Senator Boxer RCL-0147

C. Letter of 10/21/98 to Representative Furse RCL-0 148-49

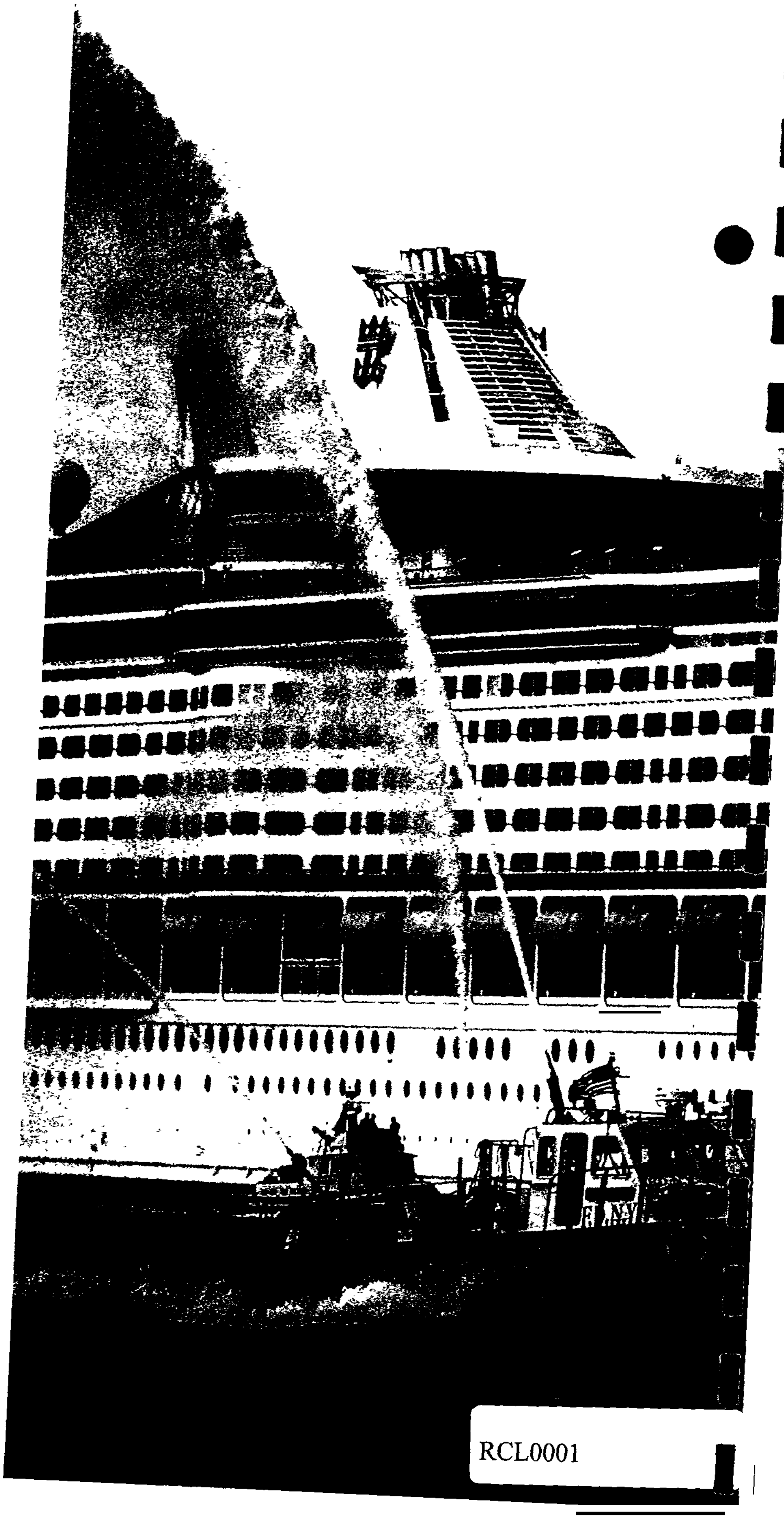
D. Letter of 06/27/00 to Senator Abraham RCL-0150

E. Letter of 0 1/16/02 to Representative Wexler RCL-0151-53

Royal Caribbean International

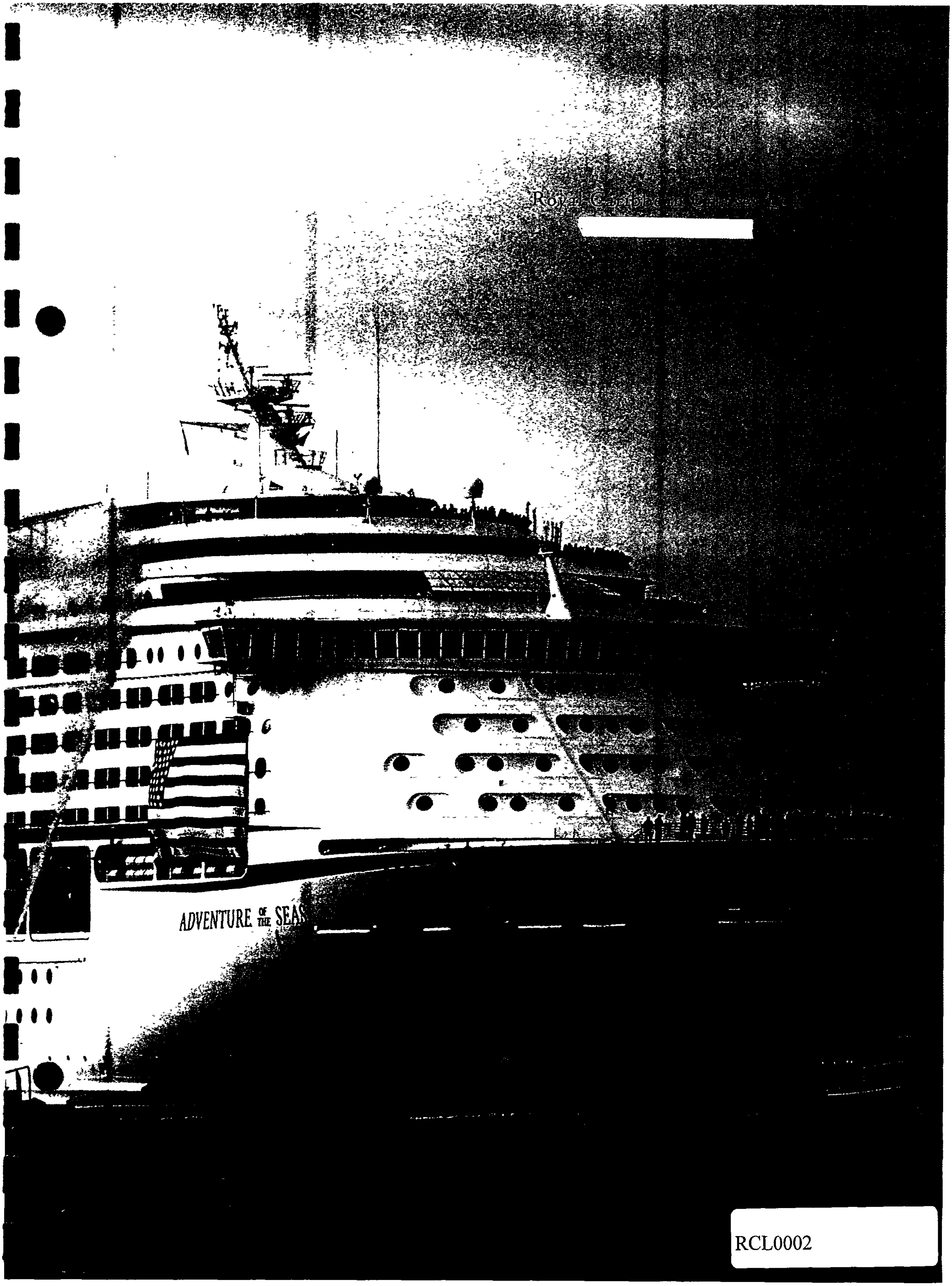
Celebrity Cruises

ROYAL CARIBBEAN CRUISES LTD.
1050 CARIBBEAN WAY
MIAMI, FLORIDA 33 132



RCL0001

Royal Caribbean Cruises Ltd.



RCL0002

Royal Caribbean Cruises L

RoyalCaribbean INTERNATIONAL

Investors' Overview

Corporate Profile

RCL LISTED NYSE

Royal Caribbean Cruises Ltd. is one of the world's largest cruise companies, operating the Royal Caribbean International and Celebrity Cruises brands, with 25 modern ships and a passenger capacity of approximately 53,000.

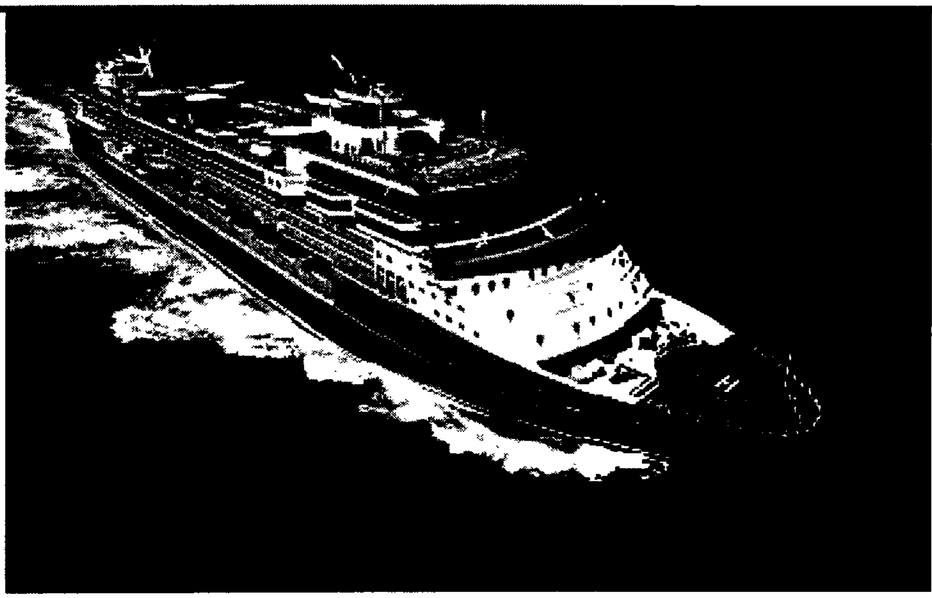
The company will introduce 3 more ships by the end of 2004, when it will have a total passenger capacity of approximately 60,300. The ships operate worldwide with a selection of itineraries that call on approximately 200 destinations.

Royal Caribbean's *Adventure of the Seas*

www.royalcaribbean.com

Celebrity Cruises' *Summit*

www.celebrity-cruises.com



A record *2.8* million guests sailed in 2002 on the 25 ships of Royal Caribbean International and Celebrity Cruises, enabling Royal Caribbean Cruises Ltd. to post a 38-percent increase in net income with record revenues of $3.4 billion. Nearing the peak of expansion in 2002, the company surpassed 50,000 double-occupancy berths and will reach 60,000 berths at the end of its current newbuilding program in 2004.

Royal Caribbean International

Our History

History of Ship Building and Cruising

In 1969, three prominent Norwegian shipping entities joined forces with a bold plan: to design and construct a ship custom-built specifically for cruising. In an industry that had seen ships used primarily as point-to-point transportation, this was a novel idea indeed. With the companies' combination of maritime commerce, Norwegian sea-faring heritage, and modern resort management acumen, Royal Caribbean Cruise Lines was born.

The first ship, Song Of Norway, embarked on its maiden voyage on November 7, 1970. With its success realized, Song Of Norway was soon joined by a fleet of ships. Each vessel surpassing her predecessor in size, capacity, accommodations and shipboard amenities. The modern-day result: Royal Caribbean International now has 14 custom-designed cruise ships sailing the globe.

Yet, cruising is more than people taking vacations at sea. Since its inception, Royal Caribbean International has been a innovator in providing the best tools to the travel agents who recommend and book guests aboard our ships. Royal Caribbean's CruiseMatch 2000 represents the travel industry's first fully-automated cruise vacation reservations system. By giving travel agents direct access to Royal Caribbean International's inventory, vacationers enjoy the best possible pricing and stateroom availability. CruisePay was introduced in November 1999, and is an integrated and interactive payment system available to travel agents through the internet. The system allows them to perform electronic payments on balances due.

From our corporate headquarters overlooking the Port of Miami, Royal Caribbean International is uniquely positioned to constantly scout the horizon and identify emerging trends and itineraries, new ports of call - and new ways to allow our guests' to "Get Out There".

Our History

The Events That Have Established Royal Caribbean as an industry Leader

1969 Royal Canbbean Cruise Line was founded by three Norwegian shipping companies Anders Wilhelmsen & Co , I M Skaugen & Company. and later Gotaas Larsen

1970 Song of Norway. Royal Caribbean's first ship, entered service She became the first passenger ship built specifically for warm weather cruising rather than point-to-point transport

Song of Norway was the world's first ship to have a cocktail lounge cantilevered from its smokestack The Viking Crown Lounge has since become the hallmark of every Royal Canbbean vessel

1971 Nordic Prince entered service Royal Canbbean pioneered the concept of air/sea vacations. flying cruise guests to Miami from all over North America

1972 Sun Viking entered service The three ships offered a variety of 7- and 14- night cruise vacations from Miami to the Caribbean

1978 Song of Norway became the first cruise ship to be "stretched" by being cut in two and an 85-foot mid-section being added This increased guest capacity from 700 to just over 1.000

1980 Nordic Prince was stretched

1982 First of a new generation of larger cruise ships, the 1,413 passenger Song of America. twice the size of Sun Viking. entered set-vice 1984 ShipShape became the first program to incorporate fitness incentives into a schedule of onboard activities 1985 Golf Ahoy' became the industry's first complete ports of call golf package 1986 Royal Canbbean created its own exclusive destination, Labadee. on the secluded north coast of Hispaniola

1988 Royal Caribbean and Admiral Cruises merged Anders Wilhelmsen & Company bought out Its original partners and gamed full ownership of Royal Caribbean Subsequently. Wilhelmsen entered into a joint ownership agreement with an entity of the Pitzker family (which owns the Hyatt hotel chain). and the Ofer family (owner of one of the world's largest shipping companies). The 73,192-ton Sovereign of the Seas arrived, signaling the beginning of a growth period in which Royal Caribbean would triple in size The 2,350-guest Sovereign of the Seas was twice as large as Song of America, three times the size of Sun Viking Guests were dazzled by a five-deck atrium called the Centrum which contained glass elevators lush foliage. sweeping staircases and fountains in marble pools -- the first time such a huge atrium had been constructed in a passenger ship

1990 Sun Viking journeyed to Europe, Scandinavia and Russia

Maiden voyage of the 1 ,600-guest, 48,563-ton Nordic Empress, the first cruise ship designed specifically for shorter cruise vacations The 980-guest Viking Serenade began seven-night cruises from Vancouver to Alaska and offered winter program of seven-night cruises from Los Angeles to the Mexican Riviera With Viking Serenade added to the fleet. Royal Caribbean was now operating from Europe to the Pacific CoCoCay, an island in the Bahamas, was developed for the exclusive use of Royal Caribbean guests

The **Royal** Canbbean Classic Senior PGA golf tournament became the only major sporting event title-sponsored by a cruise line (Royal Caribbean is the official Cruise Line of the PGA TOUR and the SENIOR PGA TOUR)

Cruise Forum, a marketing seminar-at-sea for travel agents, was the first travel agent support program of its kind

1991 Viking Serenade underwent a total reconstruction which Increased its capacity to 1.500 guests and started cruise service on the West Coast

Royal Caribbean Introduced CruiseMatch 2000, the first real-time. fully-automated cruise vacation reservations system with direct on-line access to Royal Caribbean's full inventory for over 29 000 travel agents

The mega-ship Monarch of the Seas began sailing from San Juan to the Southern Caribbean

CruiseFax became the Industry's first fax network for bookings conformation and pricing information

1992 The two Admiral Cruises ships were sold and service was discontinued Monarch's twin sister, the 73 941-ton Majesty of the Seas, began seven-nrght cruises from Miami to the Western Canbbean With the Sovereign of the Seas covering the Eastern Caribbean and Monarch sailing from San Juan to the Southern Caribbean. Royal Caribbean became the only cruise line with mega-ships based year-round in the three major Caribbean markets and was the first to operate three passenger ships in excess of 70 000 tons each

1993 Royal Canbbean became a public company trading on the New York Stock Exchange under the symbol "RCL " Song of America began summer cruises to Bermuda from New York City

1994 The company completed constructron of a second six-story office building on the Port of Miami

Royal Caribbean's new ship construction program, which would add 11.500 berths in 36 months, was one of the largest In cruise industry history

1995 Royal Canbbean celebrated its 25th anniversary Sun Viking began Far East cruises year-round Nordic Prince was sold to a British tour company The 69,130-ton 1 800-guest Legend of the Seas began service in Alaska joined by Song of Norway

Legend of the Seas Incorporated more glass than any other ship afloat and oifered the first-ever floating golf course

Exclusive Crown & Anchor Clubs opened in downtown St Thomas and San Juan, offering Royal Canbbean guests a comfortable retreat while exploring those ports of call

1996 Splendour of the Seas, at 69.130 tons, with 1,800 guests, was Introduced in Europe

1,950-guest Grandeur of the Seas entered 7-night service. replacing Sovereign of the Seas which took over Nordic Empress' three- and four- night Bahamas program when Nordic Empress moved to San Juan for short Canbbean cruises (a first-ever itinerary for the cruise Industry)

Royal Caribbean became the first cruise line ever awarded Safety & Environmental Protection (SEP) certification from Det Norske Veritas, the internationally-recognized ship classification society

Contract signed with Kvaerner Masa-Yard for two 130 000 ton vessels, the largest cruise ships ever built Total cost for the project is $1 billion

1997 The company changed its name from Royal Canbbean Cruise Line to Royal Caribbean International, more accurately reflecting Its global operation and Itineraries Song of Norway was sold to the English tour company that bought Nordic Prince two years earlier

The 78,491-ton, 2 000-guest Rhapsody of the Seas enters service in Alaska 74,140-ton, 1,950-guest Enchantment of the Seas began service in Europe Nordic Empress moves to Port Canaveral for short Bahamas cruises The company's stock was approved for European trading on the Oslo Stock Exchange Celebrity Cruises merges with Royal Caribbean Cruises Ltd

1998 Vision of the Seas began service in Europe Sun Viking sold to a Far East cruise company Song of America sold to British leisure company Airtours plc

Royal Caribbean announces it will equip Its Eagle-class ships with the Azipod propulsion system - a technology that eliminates the need for rudders, stern thrusters or propeller shafts Benefits Include reduced building time, better maneuverability and fuel efficiency Royal Caribbean announced that Legend of the Seas in November 1999 will begin sailing a program called Royal Journeys, a series of 10-globe-trotting cruise Itineraries that will visit four continents. reaching 41 ports in 19 countries

Royal Canbbean Cruises Ltd ordered two 85,000-ton. 2,000-guest ships, Project Vantage for Royal Caribbean International plus a third 142,000-ton Eagle-class ship Following an extensive audit by the Norwegian classification organization, Det Norske Veritas, Royal Caribbean International was awarded the prestigious ISO 9002 certification for excellence in quality marine management Royal Caribbean is the first cruise company to earn this honor

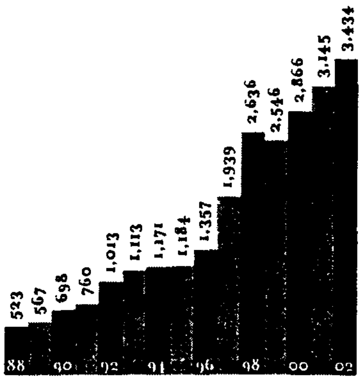
Royal Caribbean International announces the use of General Electric's gas tribunes on Its Vantage-class vessels, a first in the cruise Industry Gas tnbunes will reduce exhaust emissions by 80 to 98 percent, as well as the levels of noise and vibration Royal Caribbean Cruises Ltd Installed Mannfloc equipment, an advanced water purification and cleaning system, on all 17 ships of Royal Canbbean International and Celebrity Cruises Mannfloc reduces the oil content of bilge water often to less than three parts per million (the allowance discharge by cruise ships is 15 parts per million)

1999 Voyager of the Seas, Eagle-class ship, (142,000 tons. 3.114 guests) enters service

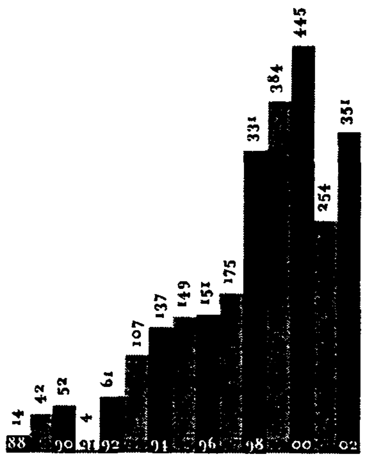
2000 Explorer of the Seas Eagle-class ship enters service Sovereign of the Seas moves to Its new homeport at Port Canaveral Majesty of the Seas replaces Sovereign of the Seas in Miami Splendour of the Seas sails on the first South American itineraries

Dining Room on Explorer of the Seas

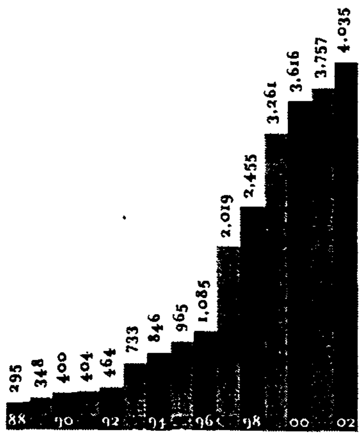
RCL FINANCIAL DATA
AS OF 12/31/02



REVENUES *($ millions)*



NET INCOME *($ millions)*



SHAREHOLDERS' EQUITY *($ millions)*

(dollars in thousands, except per share data)	2002	2001	2000
REVENUES	**$3,434,347**	**$3,145,250**	**$2,865,846**
[redacted]	[redacted]	[redacted]	[redacted]
NET INCOME	**351,284**	**254,457**	**445,363**
[redacted]	[redacted]	[redacted]	[redacted]
SHAREHOLDERS' EQUITY	**$4,034,694**	**$3,756,584**	**$3,615,915**

*(*diluted)*

GENERAL

SUMMARY

We reported revenues. operating income, net income and earnings per share as shown in the following table

(in thousands, except per share data)	Year Ended December 3 1, 2002	2001	2000
Revenues	$3,434,347	$3.145250	$2.865.846
Operating income	550.975	455.605	569.540
Net Income	35 1,284	254.457	445,363
Basic Earnings Per Share	$ 1.82	$ 132	$ 2.34
Diluted Earnings Per Share	$ 179	$ 132	S 231

Unaudited selected statistical information is shown in the following table:

	Year Ended December 31, 2002	2001	2000
Guests Carned	2,768,475	2,438,849	2.049.902
Guest Cruise Days	18,112,782	15,341,570	13.019.811
Occupancy Percentage	104.5%	101 8%	104.4%

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	Year Ended December 31, 2002	2001	2000
INCOME STATEMENT			
Revenues	$3,434,347	$3,145,250	$2,865,846
Expenses			
Operating	2,113,217	1.934.391	1.652.459
Marketing, selling and administrative	431,055	454,080	412,799
Depreciation and amortization	339,100	301,174	231,048
	2,883,372	2.689.645	2.296.306
Operatmg Income	550,975	455,605	569,540
Other Income (Expense)			
Interest income	12,413	24,544	7,922
Interest expense, net of capitalized interest	(266,842)	(253,207)	(154,328)
Other income (expense)	54,738	27.515	22,229
	(199,691)	(201,148)	(124,177)
Net Income	$ 351,284	$ 254,457	$ 445,363
EARNINGS PER SHARE:			
Basic	$ 1.82	$ 132	$ 2 34
Diluted	$ 1.79	$ 132	$ 2 31

The accompanying notes are an integral part Of these financial statements

(in thousands, except share data)	As of December 31, 2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents	$ 242,584	$ 727,178
Trade and other receivables, net	79,535	72,196
Inventones	37,299	33,493
Prepaid expenses and other assets	88,325	53,247
Total current assets	447,743	886,114
Property and Equipment-at cost less accumulated depreciation and amortization	9,276,484	8.605.448
Goodwill -less accumulated amortization of $138,606	278,561	278,561
Other Assets	535,743	598,659
	$10,538,531	$10,368,782
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 122,544	$ 238.581
Accounts payable	171,153	144,070
Accrued expenses and other liabilities	308,281	283,913
Customer deposits	567,955	446,085
Total current liabilities	1.169.933	1.112.649
Long-Term Debt	5,322,294	5.407.531
Other Long-Term Liabilities	11,610	92.018
Commitments and Contingencies (Note 12)		
Shareholders' Equity		
Common stock ($ 01 par value. 500.000.000 shares authorized: 192.982.513 and 192.310.198 shares Issued)	1,930	1,923
Paid-in capital	2,053,649	2,045,904
Retained earnrngs	1,982,580	1,731,423
Accumulated other comprehensive income (loss)	3,693	(16,068)
Treasury stock (515,868 and 475,524 common shares at cost)	(7,158)	(6.598)
Total shareholders' equity	4,034,694	3.756.584
	$10,538,531	$10.368.782

The accompanying notes are an Integral part of these financial statements

25

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	2002	2001	2000
	Year Ended December 31,		
OPERATING ACTIVITIES			
Net income	8351,284	$ 254.457	$ 445,363
Adjustments:			
Depreciation and amortization	339,100	301,174	231,048
Accretion of ongrnal issue discount	46,796	36,061	
Changes in operating assets and liabilities:			
Increase in trade and other receivables. net	(7,339,	(18.587)	(150)
Increase in inventories	(3,806)	(3.378)	(3.717)
(Increase) decrease in prepaid expenses and other assets	(8,469)	3,305	1,865
Increase (decrease) in accounts payable	27,083	(14,073)	55,102
(Decrease) increase in accrued expenses and other liabilities	(2,240)	75.645	(8.204)
Increase (decrease) in customer deposits	121,870	2,674	(21,622)
Other, net	6,191	(3.589)	3,631
Net cash provided by operating activities	870,470	633,689	703,316
INVESTING ACTIVITIES			
Purchases of property and equipment	(689,991)	(1,737,471)	(1.285.649)
Investment in convertible preferred stock			(305,044)
Net proceeds from ship transfer to joint venture			47.680
Other, net	(6.27;)	(46.501)	(21,417)
Net cash used in investing activities	(696,266)	(1,783,972)	(1.564.430)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt, net		1,834,341	1,195,000
Repayments of long-term debt	(603,270)	(45,553)	(128,086)
Dividends	(100,127)	(99,955)	(94,418)
Other, net	44,599	10,818	2,958
Net cash (used in) provided by financing activities	(658,798)	1.699.651	975,454
Net (Decrease) Increase in Cash and Cash Equivalents	(484,594)	549,368	114,340
Cash and Cash Equivalents at Beginning of Year	727,178	177,810	63,470
Cash and Cash Equivalents at End of Year	$242.584	$ 727.178	$ 177,810
SUPPLEMENTAL DISCLOSURES			
Cash paid during the year for'			
Interest, net of amount capitalized	$236,523	$ 203,038	$ 146,434
Noncash investing and financing activities			
Acquisition of ship through debt	$319,951	$ 326,738	$ --

The accompanying notes are an Integral part of these financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)	Preferred Stock	Common Stock	Pad in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders Equity
Balances at January 1, 2000	$172,200	$1,812	$1.866.647	*$1.225.976*	$ –	$(5,479)	$3,261,156
Issuance under preferred stock conversion	(172,200)	706	172,094				
Issuance under employee related plans		3	4,370		–	(559)	3,814
Preferred stock dividends				(3,121)	–	–	(3,121)
Common stock dividends				*(91,297)*	–	–	(91.297)
Net income				445.363			445,363
Balances at December 31, 2000	**–**	**1,921**	**2,043,111**	**1,576,921**		(6,038)	**3,615,915**
Issuance under employee related plans		2	2,193		–	(560)	2.235
Common stock dividends				(99,955)	–	–	(99,955)
Transition adjustment SFAS No 133					7.775		*7,775*
Changes related to cash flow derivative hedges					(23,843)	–	(23,843)
Net Income				254,457			254,457
Balances at December 31, 2001	**–**	**1,923**	**2,045,904**	**1,731,423**	**(16,068)**	**(6,598)**	**3,756,584**
Issuance under employee related plans		7	7,745			(560)	7.192
Common stock dividends				*(100,127)*	–	–	(100,127)
Changes related to cash flow derivative hedges					19,761		*19,761*
Net income				351,284			351,284
Balances at December 31, 2002	**$ –**	**$1,930**	**$2,053,649**	**$1,982,580**	**$ 3,693**	**$(7,158)**	**$4,034,694**

Comprehensive income is as follows

	Year Ended December 31,		
(in thousands)	2002	2001	2000
Net Income	**$351,284**	$254,457	$445,363
Transition adjustment SFAS No. 133		7.775	
Changes related to cash flow derivative hedges	19,761	(23,843)	
Total comprehensive income	**$371,045**	**$238,389**	$445,363

The accompanying notes are an Integral pan of these financial statements

RCL0015

Royal Caribbean Cruises Lt

Royal Caribbean INTERNATIONAL

Royal Caribbean Reports First Quarter 2003 Results

MIAMI--(BUSINESS WIRE)--April 23, 2003--Royal Caribbean Cruises Ltd. (NYSE:RCL - News; OSE:RCL) announced today that net income for the first quarter of 2003 was $53.2 million, or $0.27 per share, which was essentially the same as the first quarter of 2002. Revenues for the first quarter of 2003 were $880.2 million, up 10% from $800.0 million in 2002. The increase in revenues was primarily due to an 11.5% increase in capacity, partially offset by a 1.3% decline in gross yields (revenue per available passenger cruise day). The decrease in gross yields was primarily due to a decrease in the percentage of passengers booking airline tickets as part of their vacation package with the company ("air/sea mix") and lower occupancy levels, partially offset by an increase in cruise ticket prices and shipboard revenues. Net yields for the first quarter of 2003 increased 3.9% from the first quarter of 2002. The air/sea mix decreased to 15.1% in 2003 from 19.8% in 2002.

Operating and SG&A expenses, on a per available passenger cruise day basis, were relatively flat on a quarter over quarter basis (up 0.3%). Although the company previously anticipated costs would be higher in the first quarter, increased fuel costs were offset by a lower than expected air/sea mix and a shift in marketing and operating costs to later in the year. With the onset of the war with Iraq, the company suspended its television advertisements. Now that the war is over, the company is restarting those advertisements, first in the primary markets and then throughout the United States.

The company believes that changes in running expenses (i.e., those expenses directly associated with ship nnerations - defined as operating expenses less costs deducted to arrive at net yields) and SG&A to be the most relevant measure of its ability to control costs in a manner that positively impacts the bottom line. For the quarter, running and SG&A expenses were up 8.9%, on a per available passenger cruise day basis. This increase is primarily attributable to the increase in fuel costs and the Brilliance of the Seas lease payments. The company estimates running and SG&A expenses for the second quarter will be up on a quarter over quarter basis but expects that these costs will decrease slightly in the second half of the year. For the full year 2003, the company estimates that running and SG&A expenses will increase in the range of 2% to 3%, on a per available passenger cruise day basis.

The war with Iraq and economic uncertainty continue to have a negative impact on bookings, especially in the second quarter of 2003. While we had strong bookings through late 2002, we started to see a slowdown in December, which became more pronounced as the war with Iraq approached. This trend continued throughout the war. As a result, we currently anticipate that net yields for the second quarter will be down in the range of 6% to 9%. While we have started to see some improvement in bookings, not enough time has passed since the end of the war to determme if booking levels will return to pre-war levels. Because of the disruption related to the war in Iraq and the fact that bookings continue to come closer to the sailing date, we have limited visibility past the second quarter of 2003, which makes it difficult to provide net yield guidance for the remainder of the year.

"Just as we are pleased with the yield improvement our brands enjoyed in the first quarter, we are disappointed in the poor bookmgs we have seen since the beginning of the year for the second quarter sailings," said Richard D. Fain, chairman and chief executive officer of Royal Caribbean Cruises Ltd. "In the near term, we still have a challenging road ahead of us. But as we witnessed after the first Gulf War and, more recently, after the 9/1 1 terrorists attacks, the strong underlying fundamentals of the industry give us confidence to be optimistic about our recovery after the war with Iraq."

During the quarter, Celebrity Cruises announced that the Zenith would be the first vessel to offer 11 to 14-night "Exotic Caribbean" cruises departing from Jacksonville, Florida. Among the highlights of Zenith's Western Caribbean itinerary are Celebrity's first calls on Roatan, the largest of Honduras' Bay Islands, surrounded by coral reefs and offering superb diving and fishing opportunities and a transit through the historic Panama Canal. Given Jacksonville's immediate access to the southeastern United States, this itinerary is expected to attract additional customers interested in the drive-in option.

In addition to the announcement that all Royal Caribbean International vessels will be outfitted with rock climbing walls by November 2003, the first quarter saw Alaskan itineraries for Royal Caribbean International increase the number of ways to "get out there" with the addition of 26 new shore excursions. While the list of shore excursions offers something for everyone, options such as the Klondike Rock Climbing and Rappelling and the Extended Helicopter Glacier Trek will offer guests a chance to experience a true adrenaline-boost.

The company has scheduled a conference call at 10 a.m. today to discuss its earnings. This call can be listened to, either live or on a delayed basis, on the company's investor relations web site at http://www.rclinvestor.com.

Net Yields and Running Expenses

Net yields represent revenues less the costs of air transportation, travel agent commissions and certain other direct costs (all of which are included in operating expenses) per available passenger cruise day. Such costs were $188.6 million and $202.9 million for the three months ending March 3 1, 2003 and 2002, respectively. Management believes that net yields are the most relevant measurement of the company's pricing performance and are used by the company for revenue management purposes.

For future periods, the company has not provided a quantitative reconciliation of projected revenue per available passenger cruise day to projected net yield or projected operating costs to projected running expenses. This information has not been provided due to the significant uncertainty in projecting the costs deducted to arrive at these measures. The company utilizes net yields and running expenses to manage its business on a day-to-day basis and believes net yields and running expenses are the more relevant measures of its performance. As such, we do not believe that this reconciling information is meaningful.

Royal Caribbean Cruises Ltd. is a global cruise vacation company that operates Royal Caribbean International and Celebrity Cruises, with a combined total of 25 ships in service and three under construction or on firm order. The company also offers unique land-tour vacations in Alaska, Canada and Europe through its cruise-tour division. Additional information can be found on http://www.royalcaribbean.com, http://www.celebrity.com or http://www.rclinvestor.com.

Certain statements in this news release are forward-looking statements. Forward-looking statements do not guarantee future performance and may involve risks, uncertainties and other factors, which could cause our actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in those forward-looking statements. Such factors include general economic and business conditions, vacation industry competition, including cruise industry competition, changes in vacation industry capacity (including cruise capacity), the impact of tax laws and regulations affecting our business or our principal shareholders, the impact of changes in other laws and regulations affecting our business, the impact of pending or threatened litigation, the delivery of scheduled new ships, emergency ship repairs, incidents involving cruise ships at sea, reduced consumer demand for cruises as a result of any number of reasons (including armed conflict, terrorist attacks, geo-political and economic uncertainties or the unavailability of air service), changes in interest rates or oil prices, weather and other factors described in further detail in Royal Caribbean's filings with the Securities and Exchange Commission.

ROYAL CARIBBEAN CRUISES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share data)

	First Quarter Ended March 31, 2003	First Quarter Ended March 31, 2002
Revenues	$ 880,164	$ 799,953
Expenses		
Operating	552,569	502,638
Marketing, selling and administrative	123,984	102,076
Depreciation and amortization	88,669	82,827
	765,222	687,541
Operating Income	114,942	112,412
Other Income (Expense)		
Interest income	1,105	4,227
Interest expense, net of capitalized interest	(64,884)	(68,268)
Other income (expense)	2,011	4,442
	(61,768)	(59,599)
Net Income	$ 53,174	$ 52,813
Earnings Per Share:		
Basic	$ 0.28	$ 0.27
Diluted	$ 0.27	$ 0.27
Weighted average shares outstanding:		
Basic	193,029	192,325
Diluted	194,905	195,509

RCL0017B

STATISTICS

	First Quarter Ended March 31, 2003	2002
Occupancy as a percentage of total capacity	101.7%	103.9%
Passenger Cruise Days	4,743,164	4,344,802
Available Passenger Cruise Days	4,663,592	4,182,320

Contact.

Royal Caribbean Cruises Ltd., Miami

Lynn Martenstein or Dan Mathewes
305/539-6570 or 305/539-6153

ROYAL CARIBBEAN CRUISES LTD.

SUMMARY OF FLEET DATA

	Royal Caribbean International (RCI)	**Celebrity Cruises (CC)**	**Total**
Number of Vessels	16[1]	9	25
Average Age of Vessels (in years)’	6.3	6	6.15
Average Passenger Capacity	2,799	1,780	2,432
Total Passenger Capacity	44,776	16,018	60,794
Total Cost (000s)	$6,775,954	$3,715,067	$10,491,021

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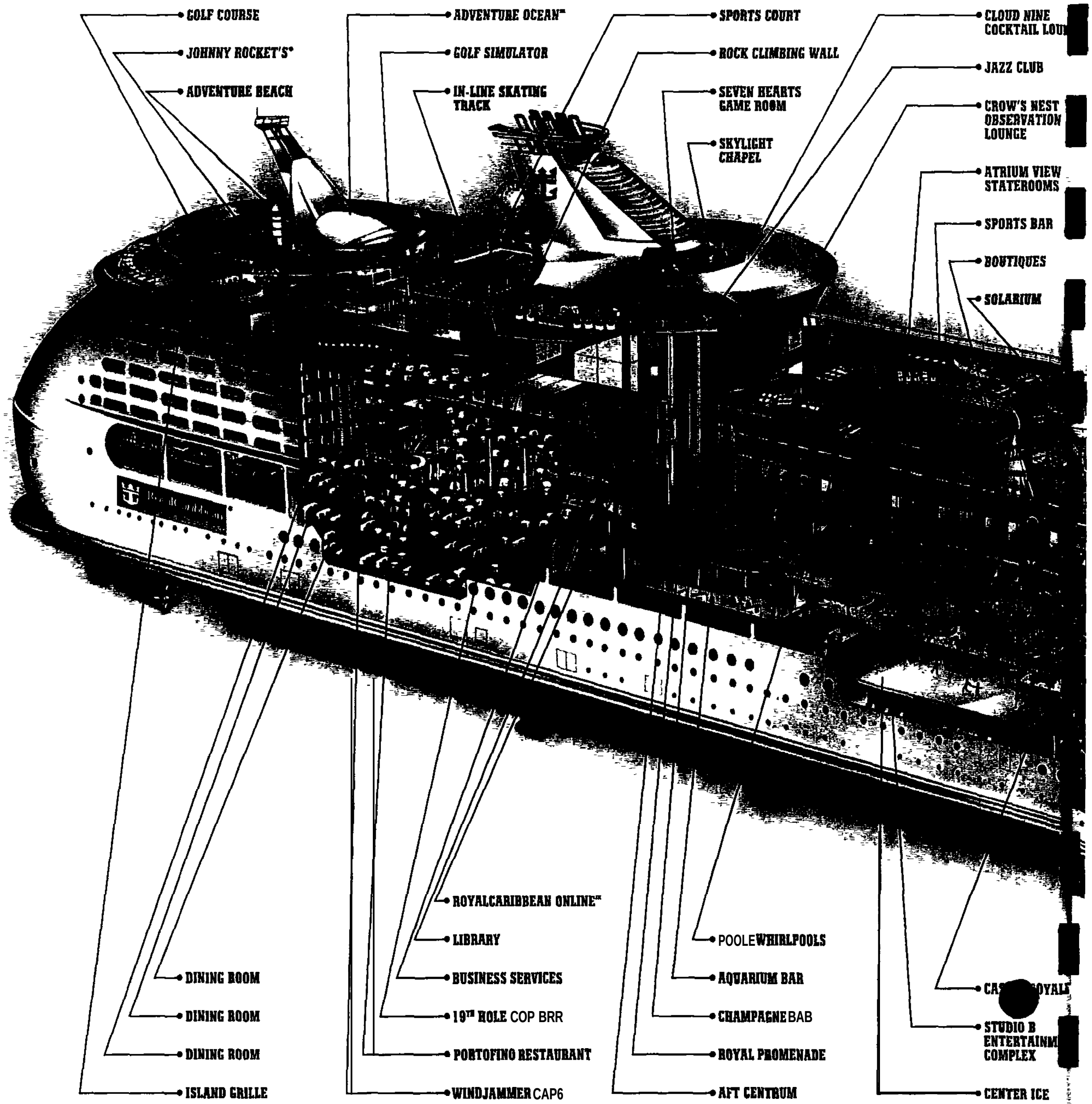
[1] Three additional vessels are scheduled for delivery to RCI in the 2003-04 time period. These vessels are not included in this Table or the following materials.

[2] Vessel age is calculated based upon original vessel delivery date, and does not include consideration of any interim vessel refurbishment.

YOURADVENTUREBEGINSATSEA

We built the most innovative cruise ships in the industry
and we filled them with adventures, new experiences, and memories for a lifetime.



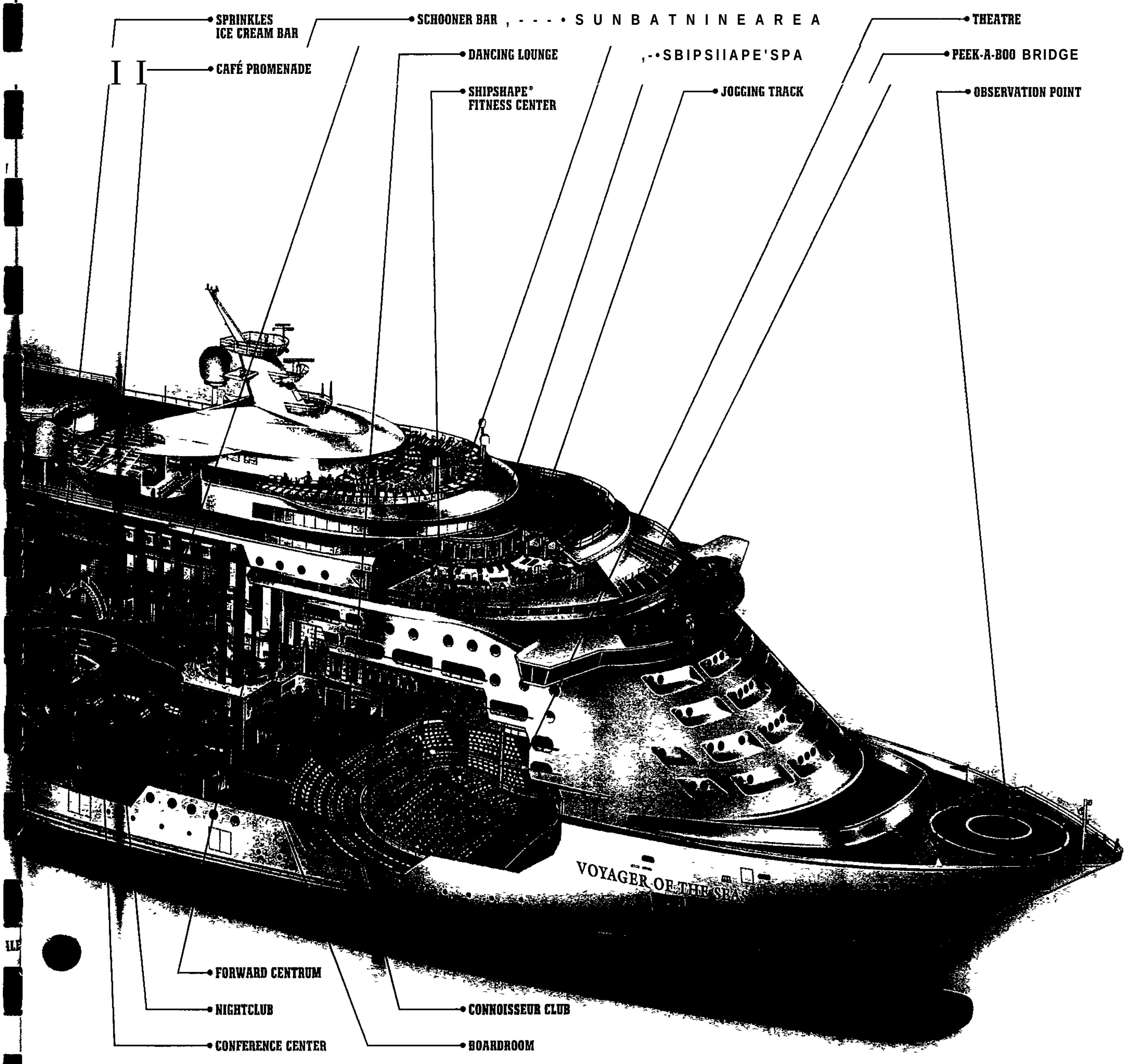
This illustration of Royal Caribbean's Voyager of the **Seas®** gives you **an** idea of the features You **will** find on many Royal Caribbean ships. Note' Features will **vary** from ship **to** ship. Please **see** individual ship layouts for specific ship features.

RCLOO 18

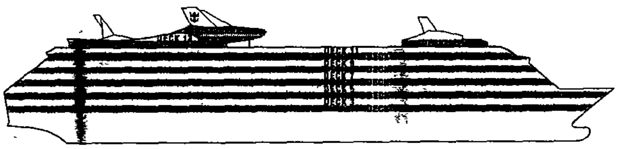
Ice Skating

Miniature Golf

royalcaribbean online℠



VOYAGER OF THE SEAS®



Length 1020' • Beam. 157.5'
Draft 29' • Passenger Capacity: 3,114
Total Crew 1181 • Gross Tonnage: 138,000 tons
Speed: 22knots (25.3 mph)

All Royal Caribbean staterooms and suites come complete with private bathroom, vanity area, hair-dryer, mini bar, closed-circuit TV, radio, and phone.

BALCONY STATEROOMS AND SUITES

■ **Royal Suite with balcony** – Separate bedroom with king-size bed, private balcony with hot tub, whirlpool bathtub, living room with queen-size sofa bed, baby grand piano, wet bar, dining table, entertainment center, and concierge service

❑ **Owner's Suite with balcony** – Queen-size bed, private balcony, separate living area with queen-size sofa bed, wet bar, walk-in closet, bathtub, and concierge service

AA Royal Family Suite with balcony – Two bedrooms with twin beds that convert to queen-size beds (one room with third and fourth Pullman beds), two bathrooms (one with shower, one with bathtub), living area with double sofa bed, private balcony, and concierge service (Suite can accommodate eight persons)

❑ **Grand Ocean View Suite with balcony** – Two twin beds (can convert into queen-size), private balcony, sitting area (some with sofa bed), bathtub and, concierge service

❑ **Superior Ocean View Suite with balcony** – Two twin beds (can convert into queen-size), private balcony, sitting area (some with sofa bed), and bathtub

D1 D6 D7 D8 D9 Superior Ocean View Stateroom with balcony – Two twin beds (can convert into queen-size), sitting area (some with sofa bed), and private balcony. Rates vary from deck to deck

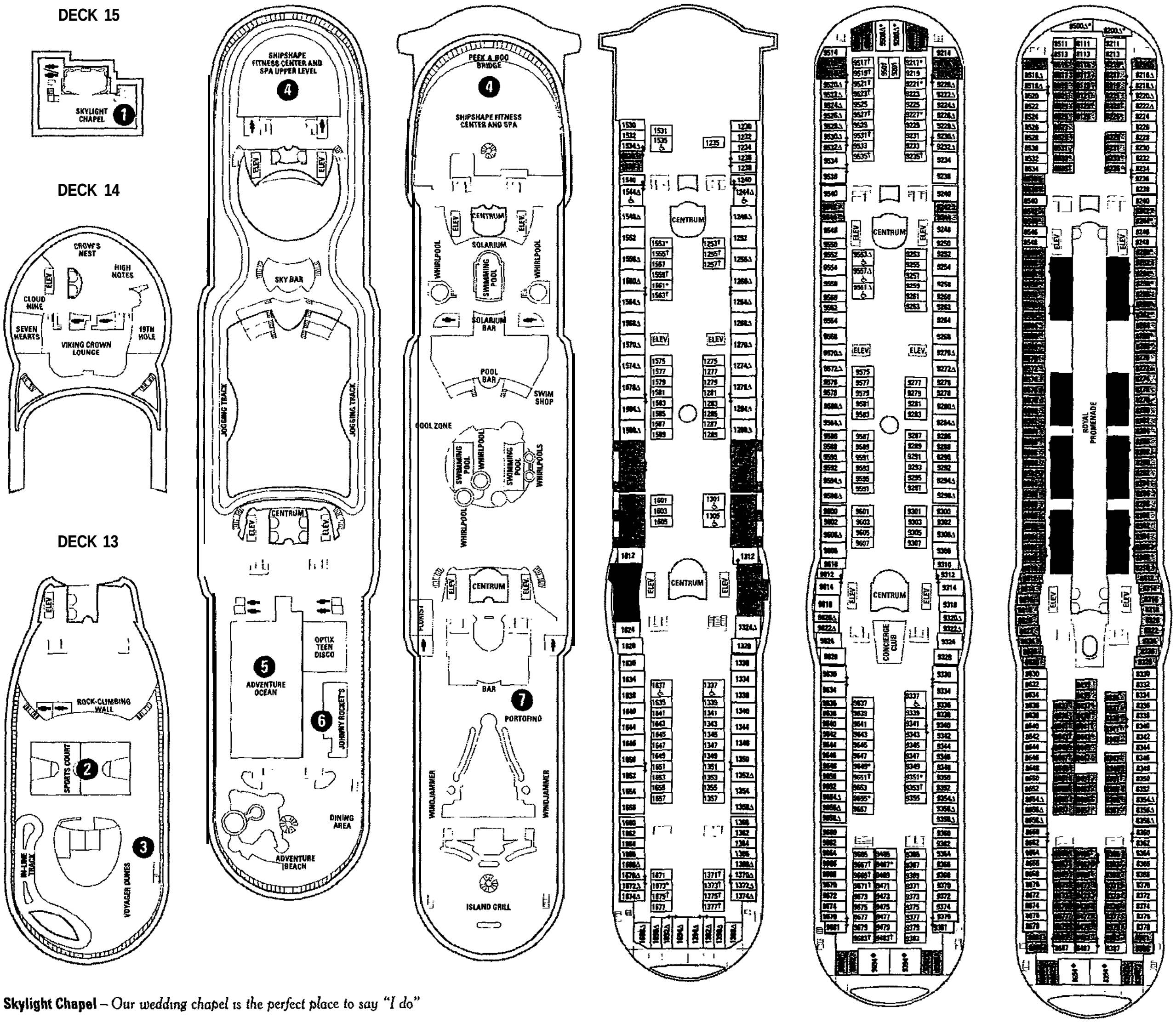
DA DB Deluxe Ocean View Stateroom with balcony – Two twin beds (can convert into queen-size), sitting area, and private balcony Rates vary from deck to deck

DECKS 13-15 | **DECK 12** | **DECK 11** | **DECK 10** | **DECK 9** | **DECK 8**

DECK 10: ■ B C D1 DA M
All premium Ocean View Staterooms and suites and all Deluxe Ocean View Staterooms on Deck 10 have balconies

DECK 9: AA C D9 DA E H M
All Premium Ocean View Staterooms and Suites on Deck 9 have balconies

DECK 8: AA D8 DA E N O
All Premium Ocean View Staterooms and Suites on Deck 8 have balconies



❶ **Skylight Chapel** – *Our wedding chapel is the perfect place to say "I do"*

❷ **Sports Court** – *An outdoor activity court for sports, including basketball and volleyball*

❸ **Voyager Dunes Golf Course** – *Our 9-hole small-scale golf course will entertain adults and children alike*

❹ **ShipShape® Fitness Center & Spa** – *Exercise equipment, sauna, massage, and beauty salon*

❺ **Adventure Ocean℠** – *Activities for kids that mix education with entertainment (for ages 3–17).*

❻ **Johnny Rockets®** – *A '50s diner which features good old-fashioned malted milk shakes*

❼ **Portofino Restaurant** – *Enjoy sumptuous Italian cuisine in our "reservation only" restaurant*

❽ **Royal Promenade** – *A naturally lighted four-story mall lined with bars and shops*

❾ **Theatre** – *Features contemporary musical stage productions*

❿ **Dining Room** – *Our three-tier dining room features a wide variety of menu items*

RCL0020

OCEAN VIEW ACCOMMODATIONS

❑ **Family Stateroom** – Two twin beds (can convert into queen-size), sofa and/or Pullman beds, and sitting area. Accommodates six

❑ **Larger Stateroom** – Two twin beds (can convert into queen-size)

[H] ❑ ◊◊◊◊ ❑❑❑❑ - Two twin beds (can convert into queen-size)

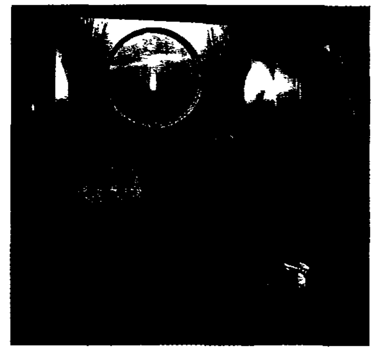
PROMENADE VIEW ACCOMMODATIONS

■ **Atrium Stateroom** - A view of the Royal Promenade with bowed windows and two twin beds (can convert into queen-size)

INTERIOR ACCOMMODATIONS

❑ [N] [O] [P] [Q] **Stateroom** – Two twin beds (can convert into queen-size)

Deluxe Ocean View Stateroom



Ocean View Stateroom

DECK 7
[C] [D7] [DB] [E] ■
[H] [N] [P] ■
All Premium Ocean View Staterooms and Suites on Deck 7 have balconies

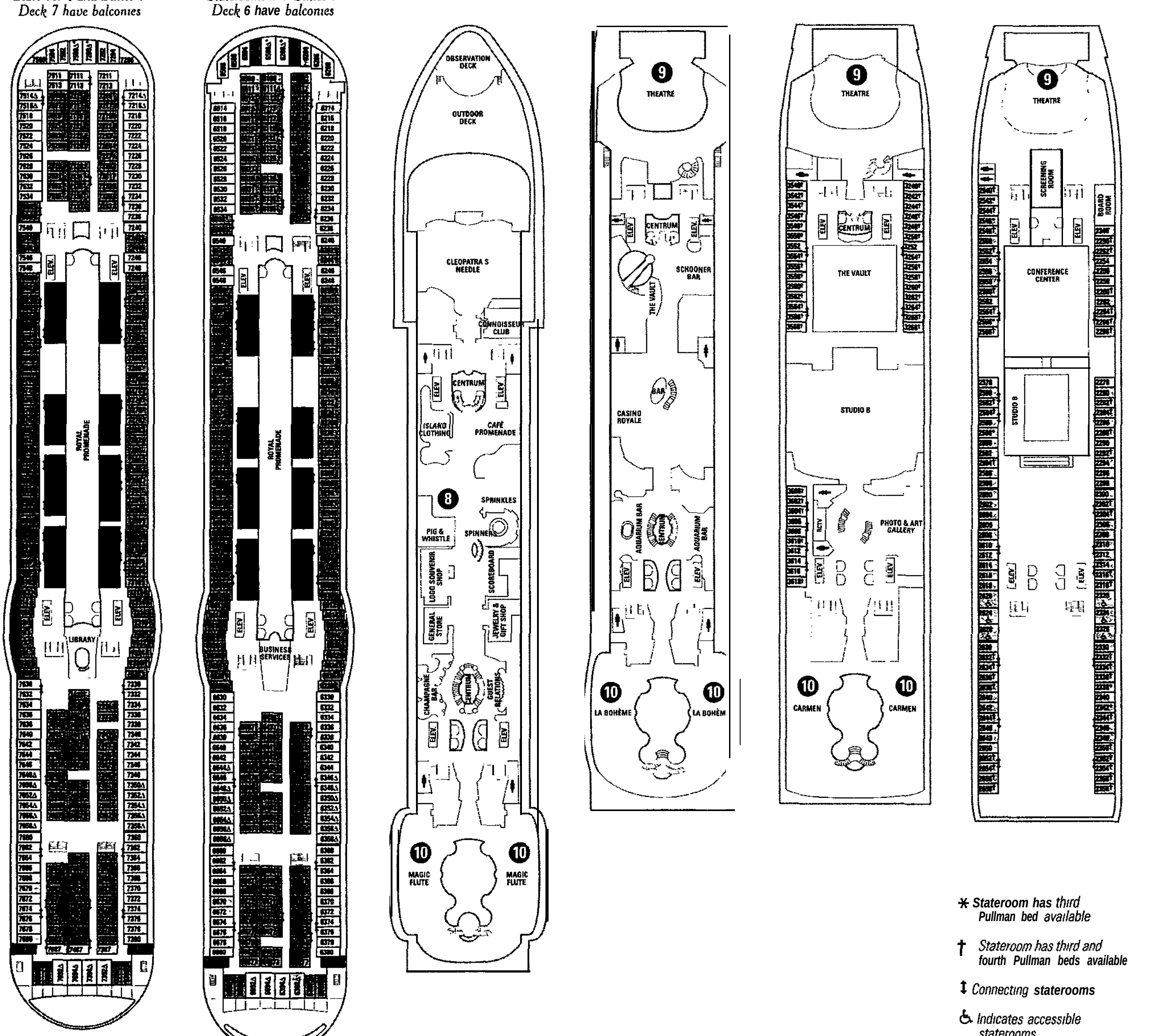
DECK 6
[C] [D6] [DB] [E] ■
[H] [N] [Q] ■
All Premium Ocean View Staterooms and Suites on Deck 6 have balconies

DECK 5

DECK 4

DECK 3
[H]

DECK 2
❑



✱ Stateroom has third Pullman bed available

† Stateroom has third and fourth Pullman beds available

‡ Connecting staterooms

♿ Indicates accessible staterooms

Δ Stateroom with sofa bed

◆ Stateroom with sofa bed and third Pullman bed available

Not shown Medical Facility

RCLO021

ONBOARD ADVENTURES DAYTIME

Another day of adventure awaits you onboard. With so much to discover and experience, you might just find the crack of dawn becomes your wake-up call.

GET PUMPED
Start the day with an invigoratmg workout m our ShipShape® Fitness Center. This world-class facility offers everything from kickboxing to yoga, and features state-of-the-art cardiovascular equipment and a variety of aerobics classes for all levels.+ You can also keep active on the rock-climbing wall and jogging track, or get m a round of miniature golf.

†Some specialized fitness classes may have an additional charge

GET PAMPERED
Our Shipshape" Spa and Salon is the perfect place to relax, restore, and rejuvenate. Try a therapeutic body massage, seaweed wrap, slimming treatment, facial, or manicure. Looking for a new hairstyle, cut, or color? Leave it to our styhsts to work their magic.

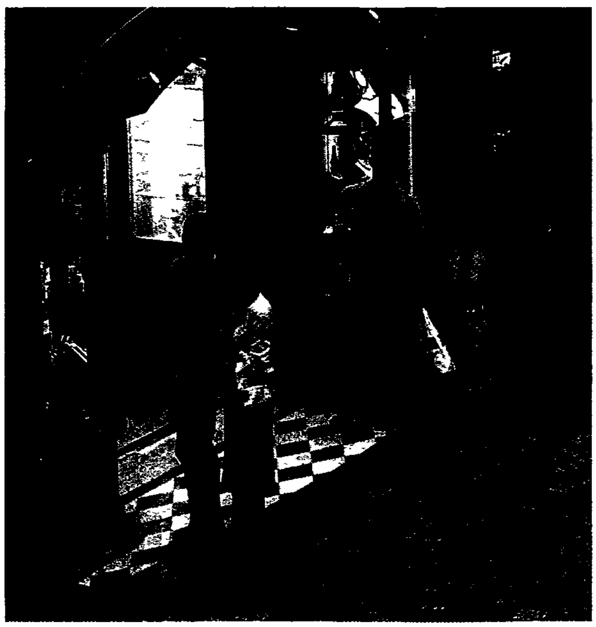
Pricing and service details are available onboard

GET SHOPPING
You can find everything you want in our duty-free boutiques: a unique souvenir for that special friend or a piece of fine jewelry that will look perfect on you. And just in case you forgot your toothbrush or need a razor, our boutiques also offer a full hne of sundries.

GET CONNECTED
It's high tech on the high seas! With royalcaribbean online: for a small fee you can send and receive e-mail, send an e-postcard to folks back home, or just brag to anyone who wants to listen. On Radiance and Voyager-class ships you can even bring your laptop and connect using dial-up access from the privacy of your stateroom (for a reasonable charge).

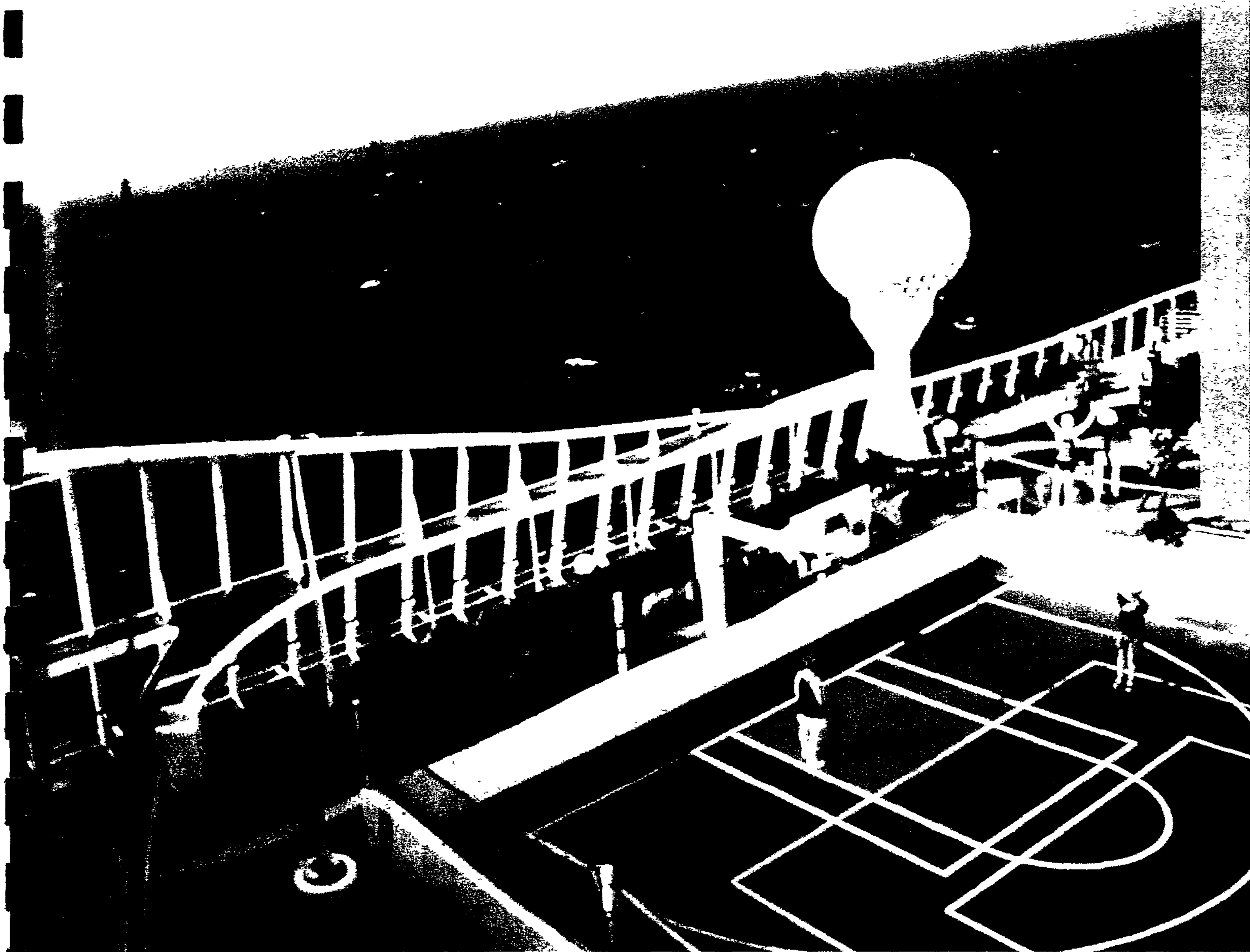
All activities listed and shown on this page are not available on all ships. Please see specific ship layouts for details.

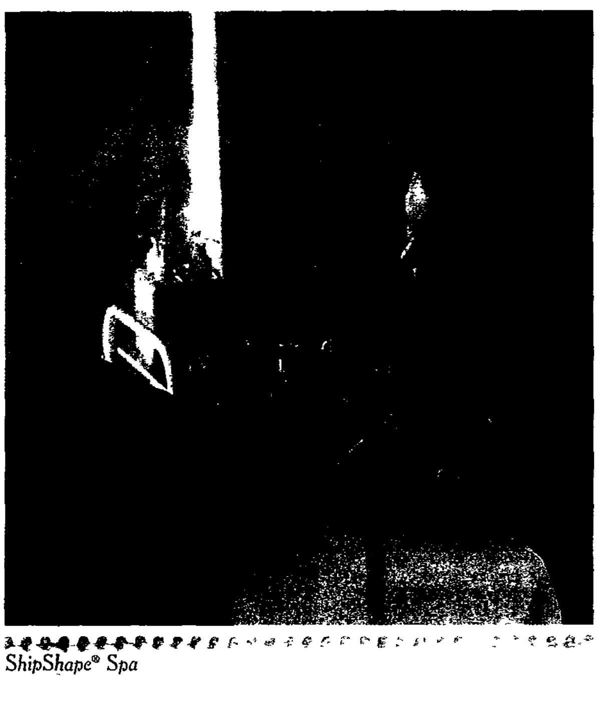
Sports Court, Explorer of the Seas®



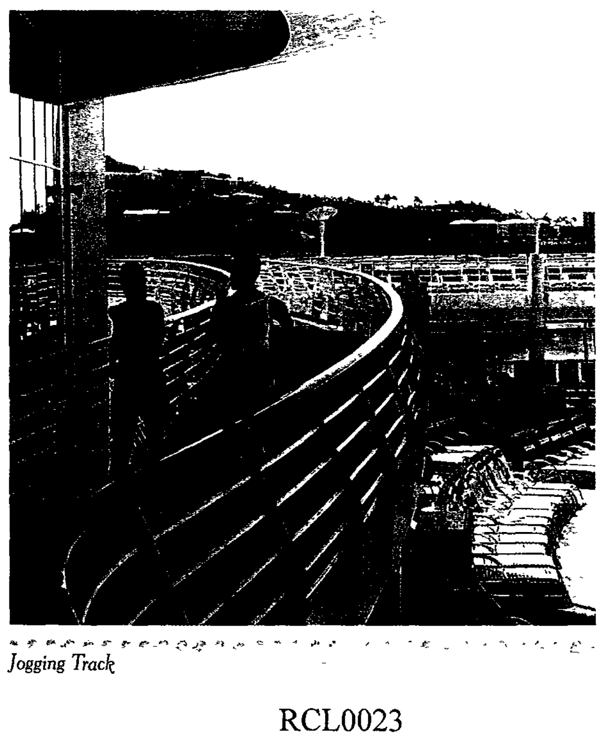
Shopping Onboard

RCL0022





ShipShape® Spa

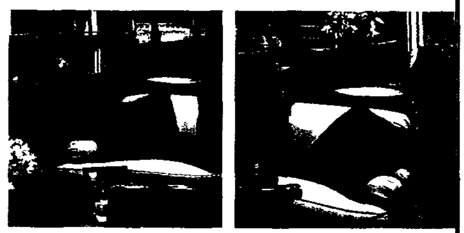


Jogging Track

RCL0023

Main dining room, *Voyager of the Seas*

RCL0024



15.3 million
guest cruise days

RISING DEMAND

A flotilla of spectacular new cruise ships propelled the North American market to 57-percent growth in five years – from 4.4 million guests in 1995 to 6.9 million in 2000. The numbers rose slightly to 6.91 million in 2001 despite an economic recession and a decline in air travel. Royal Caribbean International and Celebrity Cruises served a record 2.4 million guests in 2001, and in two years, have increased the number of "guest cruise days" by 37 percent – from 11.2 million in 1999 to 15.3 million in 2001. Even with an unprecedented four new ships and 9,250 new berths in a single year, occupancy in 2001 remained high at 101.8 percent. The company attracted more than one million first-time cruisers in 2001.

ROYAL CARIBBEAN INTERNATIONAL FLEET DATA

Ship In Service	*Fleet*	*Maiden Voyage*	*Passenger Capacity*	*Asset Value At EOY in Service* (000s
Adventure of the Sea	RCI	11/18/01	3,114	$672,100
Brilliance of the Seas	RCI	07/19/02	2,501	476,900'
Enchantment of the Seas	RCI	07/14/97	2,446	344,491
Explorer of the Seas	RCI	10/28/00	3.114	657.500
Grandeur of the Seas	RCI	12/14/96	2,446	351,783
Legend of the Seas	RCI	05/16/95	2,006	361,770
Majesty of the Seas	RCI	04/16/92	2,744	300,324
Monarch of the Seas	RCI	11/17/91	2,744	317,791
Navigator of the Seas	RCI	12/14/02	3,114	634,600
Nordic Empress	RCI	06/25/90	2,020	189,904
Radiance of the Seas	RCI	03/10/01	2,501	476,100
Rhapsody of the Seas	RCI	05/19/97	2,435	362,032
Sovereign of the Seas	RCI	01/16/88	2,852	193,635
Splendour of the Seas	RCI	03/31/96	2,076	385,561
Vision of the Seas	RCI	05/02/98	2,435	370,963
Voyager of the Seas	RCI	11/21/99	3,114	680,500

[3] Operating Lease.

ROYAL CARIBBEAN INTERNATIONAL (RCI) FLEET

ADVENTURE OF THE SEAS

3,114 Passengers
Maiden Voyage – November 18, 2001
Cost - $672,100,000

BRILLIANCE OF THE SEAS

2,501 Passengers
Maiden Voyage – July 19, 2002
Cost - $476,900,000

ENCHANTMENT OF THE SEAS

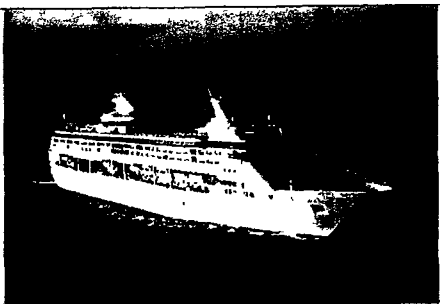
2,446 Passengers
Maiden Voyage – July 14, 1997
cost - $344,491,000

EXPLORER OF THE SEAS

3,114 Passengers
Maiden Voyage – October 28, 2000
cost - $657,500,000

GRANDEUR OF THE SEAS

2,446 Passengers
Maiden Voyage – December 14, 1996
cost - $351,783,000



LEGEND OF THE SEAS

2,006 Passengers

Maiden Voyage – May 16, 1995

cost - $361,770,000

MAJESTY OF THE SEAS

2,744 Passengers

Maiden Voyage – April 16, 1992

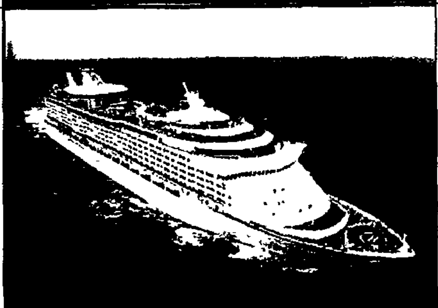
Cost - $300,324,000

MONARCH OF THE SEAS

2,744 Passengers

Maiden Voyage – November 17, 199 1

cost - $317,791,000

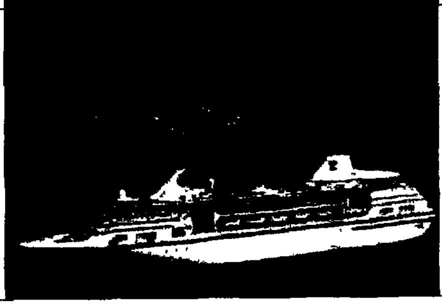


NAVIGATOR OF THE SEAS

3,114 Passengers

Maiden Voyage – December 14, 2002

Cost - $634,600,000

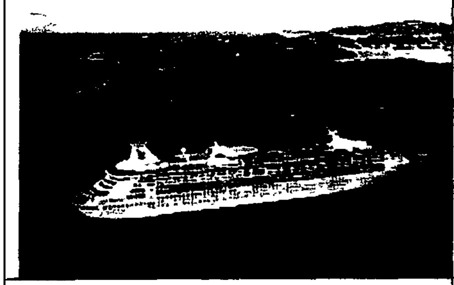


NORDIC EMPRESS

2,020 Passengers

Maiden Voyage – June 25, 1990

cost - $189,904,000



RADIANCE OF THE SEAS

2,50 1 Passengers

Maiden Voyage – March 10,200 1

Cost - $476,100,000

RHAPSODY OF THE SEAS

2,435 Passengers

Maiden Voyage – May 19, 1997

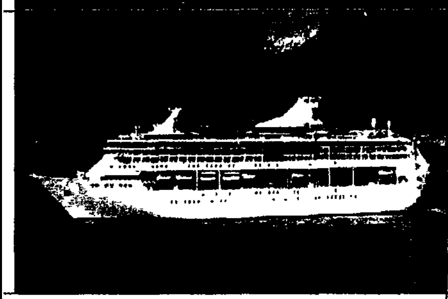
Cost - $362,032,000

SOVEREIGN OF THE SEAS

2,852 Passengers

Maiden Voyage – January 16, 1988

Cost - $193,635,000

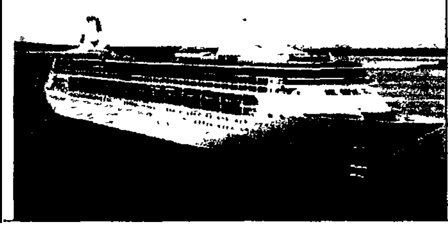


SPLENDOUR OF THE SEAS

2,076 Passengers

Maiden Voyage – March 3 1, 1996

Cost - $385,561,000



VISION OF THE SEAS

2,435 Passengers

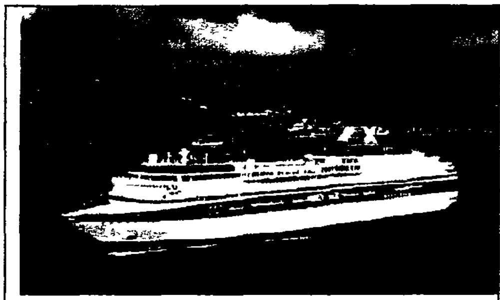
Maiden Voyage – May 2, 1998

Cost - $370,963,000

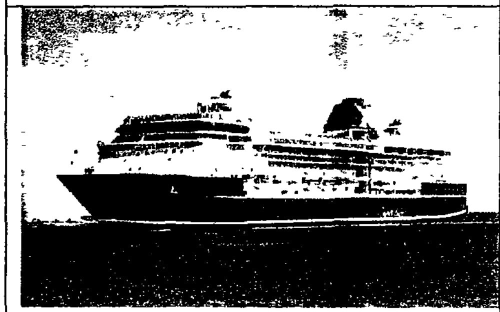
VOYAGER OF THE SEAS

3,114 Passengers
Maiden Voyage – November 2 1, 1999
Cost - $680,500,000

Celebrity Cruises Fleet

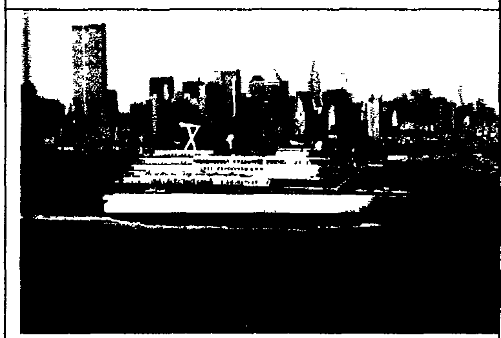


Century
1,750 Passengers
Maiden Voyage – December 20, 1995
Cost - $397,802,000

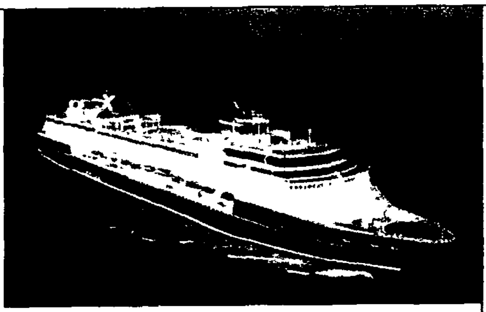


Constellation
1,950 Passengers
Maiden Voyage – May 2002
Cost - $473,700,000

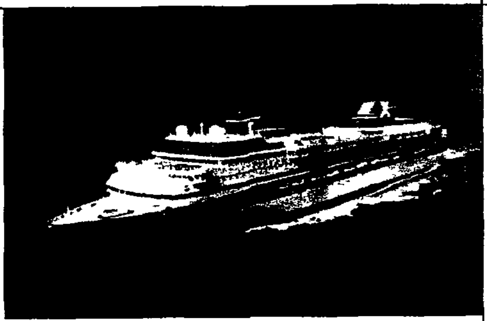
Galaxy
1,870 Passengers
Maiden Voyage – December 21, 1996
Cost - $416,501,000



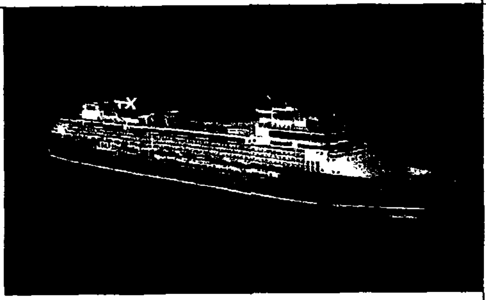
Horizon
1,354 Passengers
Maiden Voyage – May 26, 1990
Cost - $267,795,000



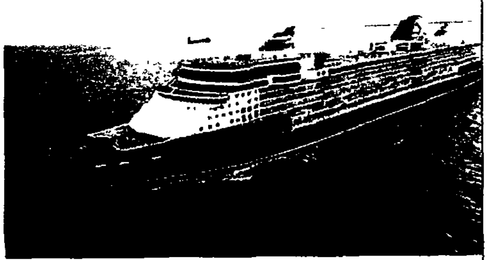
INFINITY
1,950 Passengers
Maiden Voyage – February 2001
Cost - $483,800,000



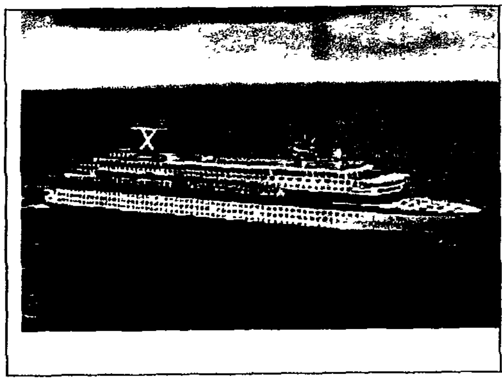
MERCURY
1,8 70 Passengers
Maiden Voyage – November 2, 1997
Cost - $421,944,000



MILLENNIUM
1,950 Passengers
Maiden Voyage – July 1, 2000
Cost - $493,200,000

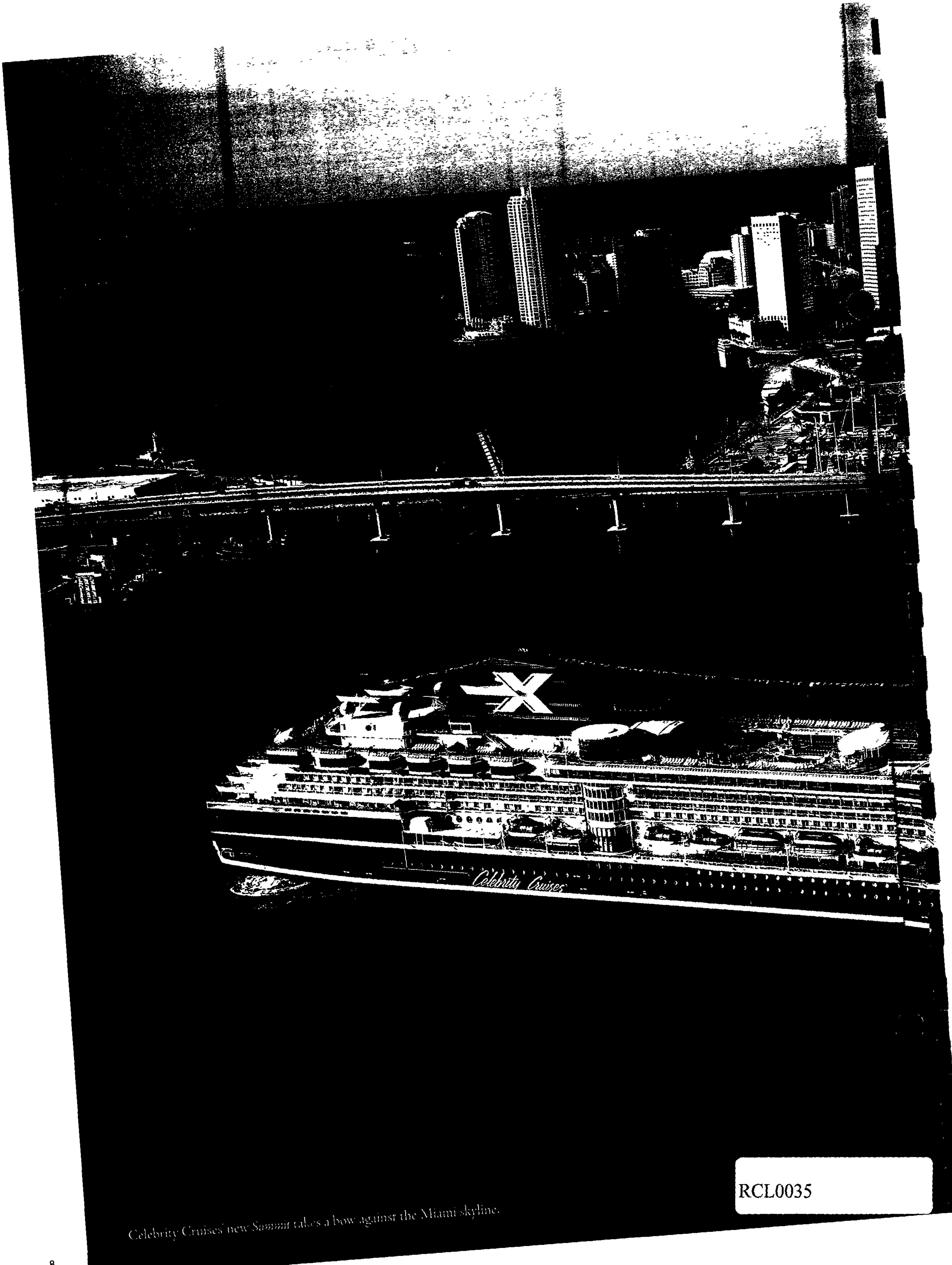


SUMMIT
1,950 Passengers
Maiden Voyage – September 2001
Cost - $485,700,000



ZENITH

1,374 Passengers
Maiden Voyage – April 4, 1992
Cost - $274,625,000



Celebrity Cruises' new *Summit* takes a bow against the Miami skyline.

RCL0035

RCL0036

Royal Caribbean Cruises L

RoyalCaribbean INTERNATIONAL

Royal Caribbean Cruises Ltd. (ticker: RCL, exchange: New York Stock Exchange) News Release - 29-Jan-2003

Celebrity Cruises Cancels Two Hawaii Cruises

MIAMI, Jan. 29 /PRNewswire-FirstCall/ -- Celebrity Cruises is canceling two cruises on Infinity to replace ball-bearing units in the ship's propulsion system. The ship must enter drydock to replace the bearings, which will result in the cancellation of its February 2 and February 13 sailings. The ship is expected to return to its scheduled sailings on February 23.

The first cancelled sailing, Sunday, is a 1 l-night cruise from Ensenada, Mexico, to Hawaii. The February 13 sailing is a lo-night cruise from Hawaii to Ensenada. Infinity is currently completing a 14-night trans-Canal sailing that ends in San Diego Sunday.

Guests booked on the cancelled sailings will receive a full refund and a voucher for a 50-percent discount on a future Celebrity cruise of 12 nights or less, departing on or before April 1, 2004, excluding Christmas and New Year's sailings. Travel agents will receive full commissions, plus a $50 rebooking fee per cabin when their clients reschedule their cruise.

"The thrust-bearing failure in one of the ship's propulsion systems developed very quickly, and while the ship continues to operate safely, its speed has had to be reduced," said Jack Williams, president and chief operating officer of Celebrity Cruises. "Unfortunately, this has resulted in us having to take the ship to an unscheduled drydock. I want to personally apologize of all our guests whose vacation plans have been disrupted due to this disappointing event."

Celebrity has established a special Help Desk to assist guests and travel agents with rebooking, air transportation and other issues. That toll-free number is l-888-701-7192.

The cancelled cruises are expected to have a negative impact on the earnings of Royal Caribbean Cruises Ltd. of $.03 to $.04 per share.

RCL0037

Royal Caribbean Cruises Ltd. is a global cruise vacation company that operates Royal Caribbean International and Celebrity Cruises, with a combined total of 25 ships in service and three under construction or on lit-m order. The company also offers unique land-tour vacations in Alaska, Canada and Europe through its cruise-tour division. Additional information can be found on www.royalcaribbean.com, www.celebrity.com or www.rclinvestor.com. SOURCE Royal Caribbean Cruises Ltd.

-0- 0 l/29/2003

CONTACT: Lynn Martenstein, +1-305-539-6573, or Michael Sheehan, +1-305-539-6572, both of Royal Caribbean Cruises Ltd.

Web site: http://www.royalcaribbean.com

http://www.celebrity.com

RCL0038

Cruise News Daily (tm)
February 12, 2003 Issue 3312
****

• **My Cruise Is Canceled - Now What?**

The unthinkable happens, and your cruise is canceled because something has happened to your ship.

Unfortunately, in the last few weeks, through coincidence, this situation has come up a number of times, and has thrown thousands of passengers' vacation plans into disarray. Each time, the cruise line offers, of course, a refund for the days they won't be sailing plus oomething additional such as a future cruise credit. Judging from our mail, and what we see online, there seem to be a lot of misconceptions about these offers what they are and what passengers are entitled to.

So this week we sat down with Royal Caribbean's Doug Santoni (VP of Revenue Management1 and Bill Martin (Associate VP for Customer and Decision Support), the people who are intimately involved in deciding what is offered to passengers beyond just a simple refund, to clear up some misunderstands and dispel some myths.

By the time a cruise line has announced that a sailing has been canceled, the plan is already in place as to exactly what will be offered affected passengers. It hasn't been a decision that came off the top of the head of some executive who threw out an idea between phone calls. Lots of input is carefully considered. Before making any decisions, they know how many passengers are affected, how much they are paying, if alternate sailings are available on comparable itineraries and dates, as well as how much space is available on each of those alternatives.

From there, they are also weighing how far in advance the cancellation is taking place and how difficult it is going to be to reaccommodate passengers on alternate sailings that are close to what they had. Those are big factors that go into deciding what paaaengers will be offered over and above a simple refund.

The idea, Santoni told CND, is that they want to compensate the passenger in a way or amount that would keep a reasonable person's goodwill.

That's a key point that most people miss, especially the ones who are absolutely outraged at having their plans upaet. What is offered isn't necessarily trying to strictly compensate them for their time or inconvenience based on a monetary amount tied to the value of their time *or* other auxiliary arrangements they have made, but rather it is more of a goodwill gesture aimed at what would please reasonable people.

Of course elements of this are always a full refund, and protection of the travel agent's commission. Beyond that, the offer may be an onboard credit or a future cruise credit for a percentage (or sometimes a dollar amount) off on another cruise. Those are usually limited to the same type or length of cruise and the same type of cabin the passenger originally booked. (In other *words,* don't expect to be able to use the future cruise credit from a canceled 3-night Bahamas cruise on which you had booked an inside cabin for a balcony cabin on a 15-day Hawaii cruise.) Of course if the passenger wants to book something of a lesser value, that would be his option (such as the 15-day Hawaii cruise being canceled and then using the discount on an inside cabin on a 'l-day Caribbean cruise).

There's another option which is often part of the offer, if the sailing is rather close-in and they have enough space available on some cruises during the same time frame. In those cases Royal Caribbean also *may* offer the option of a free cruise on one of those selected sailings (and only those failings) in the same type of accommodations as the passenger originally booked, in lieu *of* the future cruise discount, at the customer's option.

Something else that is being factored in more and more often is consideration fox the passenger whom Royal Caribbean may see as a cruise only passenger, but has actually booked *his* own nonrefundable airline tickets. (The percentage of passengers for whom cruise lines book the air is continuing to decrease.) Often the standard fee (usually $100) for changing airline tickets will be reimbursed.

Of course, it also has to be realized that Royal Caribbean is a business, and there is a cost involved to everything, that is factored into the offer also. They can't give away the store, as much as they want to make everyone a8 happy as they *can.*

Once Santoni and his team have the offers in place, then it's time to actually start contacting the passengers and travel agents. This happens in a few ways. One is that a press release goes out. At the same time, they send out faxes to travel agents with clients on the canceled sailing. Meanwhile for those passengers who booked directly with Royal Caribbean, a special team is calling them. (For some they have an e-mail address, and that's the way their primary notification goes out.)

Remarkably, within a couple of hours there has been some contact made with every passenger. Now you must keep in mind that often that contact is a message left on an answering machine or a fax going to a travel agent. It's then a matter of how quickly the travel agent reaches the passenger or how soon the passenger picks up a message left on his answering machine. Shortly, telephone calls begin to each of the agents and repeat calls to each of the passengers to make sure they got the message.

Passengers and agents are advised to call a special phone number the company has set up to handle people on the canceled sailings. The people staffing this desk have received special training to deal with these circumstances and know the offers completely and how to explain them to the passengers.

This is where we dispel another misconception. *Everyone* gets the same offer, and it is not negotiable. We see many people on bulletin boards feeiing they have a special circumstance so they will be able to negotiate something else. It's not going to happen according to Santoni. No one (note: no one, including customer service supervisors) at the company has the authority to modify what is being offered, because they just can't begin to open negotiations with passengers on a one-on-one basis.

If it seems as if a negotiation is going on, it's not. What's happen is that the reservationist is looking at different options and matching them with what's actually available at that given moment on alternate sailings.

What we've talked about so far are eituations where cruises have been canceled before departure. Occasionally, a ship runs into some operational difficulty, such as Infinity did a couple of weeks ago, where the cruise is canceled several days before the end. Those are handled a bit differently.

In this case, there is data coming in from the line's marine operations department as to the nature of the problem and how it is (and is likely to) affect the cruise, information from the air/sea department on what types of arrangements are being made to get the passengers home (if the cruise is being canceled), and information from the staff on the ship as to how much the passengers are being inconvenienced onboard.

They take all this into consideration when deciding what will be offered to make the passengers feel better about the experience, engender goodwill and encourage them to sail with the line again. This could be in the form of an onboard credit if the problem is relatively minor and the cruise is continuing, to a percentage off on a future cruise. (The free cruise option in lieu of the percentage off isn't going to be offered in these cases, since that's offered to help the customer preserve his vacation and still get to go somewhere at the same time as he originally planned.) If the cruise ended early, of course, the passengers will receive a refund for the unsailed days, and the line will get them home from wherever their cruise ended.

Let's digress for just a moment from the main subject, to note something else important. when a cruise ends early, a gargantuan effort is required to suddenly arrange return air transportation and possibly hotel accommodations for one or two thousand people on less than a day's notice. The arrangements are all handled in

Miami, not on the ship. Often we receive note8 from people who are most dissatisfied about the less than personal consideration and attention they received during these instances, and they are unhappy with the travel arrangements or some disorganization or delays that ensued in getting them to the airport and into the air. In these cases, passengers should be lowering their expectations of the service they will receive and not letting that affect their perception of the cruise they had experienced up until that point. The idea is to get everyone home as soon as reasonably possible. It's usually amazing how transportation can be put together for SO many people so quickly, but it's not always going to be the same quality as they had on the way to the port where it was individualized for them and planned some time in advance. often they are working with people or suppliers who seldom handle this many people moving at once, but those are the only suppliers available on that short of notice.

Sometimes we (and the cruise lines) hear from passengers who are offered a percentage off on a future cruise, and they don't feel it is enough. In those cases it's important to remember the "compensation" versus "goodwill" point we made above. These offers are a goodwill gesture. While a 25% or 50% discount on a future cruise may not initially sound like much at first, used cbrrcctly, it could be worth a significant dollar amount. Almost always it translates into at least several hundred dollars. Compere that to what other sectors of the travel industry offer their customers when things beyond their control go awry. How much did you receive from the airline the last time your flight was canceled due to a mechanical problem? They may have rebooked you on a later flight, but how much of a discount did they give you on your next trip?

Cruise lines are aware that they aren't going to be able to please everyone. There are passenger8 who just aren't going to be satisfied with the goodwill gesture. When that happens, unless there are considerably extenuating circumstances, Santoni tells us Royal Caribbean can only again apologize for the inconvenience, and express their hope that the customer will take them up on what has been offered and sail with them again. Royal Caribbean is in the hospitality business and depends on repeat customers, but there are limits to what they can do to satisfy a customer, and to do more for one customer wouldn't be fair to the others.

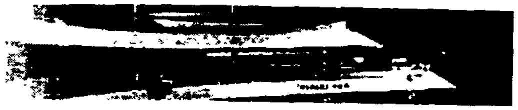
This has been a look at the way Royal Caribbean does things for their Royal Caribbean and Celebrity brands. Other lines, of course, may have slightly different procedures but Royal Caribbean is representative of the way the other lines perceive these issues.

We hope this gives you a better perspective on what happens in these circumstances (and hope you never have

Carnival : Princess : Holland America · Seabourn Windstar : P & O Cunard . Ocean Village : Swan Hellenic : Costa , AIDA · A'ROSA P & O Australia

CARNIVAL
CORPORATION & PLC

WORLD'S LEA



Corporate Profils

On **April** 17, 2003, Csmlvsl Corporstlon **(NYSE:** CCL) snd **P&O Princess plc Cruises (LSE: POC) merged via a** dual **listed company** structun **(DLC).** Subsequently, **P&O** Princsss **plc Cruises** hss **changed** Its **name** to **Carnival** plc.

Csrnlvsl Corporstlon snd Csrnivsl plc **function** 88 **a single economic entity** through **contractual agreements between** two **separate legal entities. Shareholders** Of both Csrnlvsl Corporstlon snd Csmlvsl plc **have the same** sconomlc and votlng **interest** but **their shares are listed** on **different** stock ● xchsngas. **Carnival** Corporstlon common stock **is traded** on ths Now York Stock **Exchange under** tlcksr **symbol** CCL. **Carnival** plc Is **traded** on **the** London Stock **Exchange** undsr tlcksr symbol CCL and **as** sn ADS on **the New** York Stock **Exchange under ticker symbol** CUK.

Information contained on this **website** Is for both Csrnlvsl Corporstlon snd **Carnival** plc **after April 17, 2003. Where applicable information** Is **also provided** for Csrnivsl Corporstlon **prior** to **April** 17, 2003 and P&O Princsss **prior** to **April 17, 2003**

Camlval Corporatlon & plc Is a **global cruise** company wlth a **portfolio** of 13 **distinct** brands comprised of the leadlng **cruise** operators In both North **America** and Europe. **Carnival Cruise** Lines, **Princess Cruises,** Holland **America Line, Windstar** Cruises, Ssaboum **Cruise Line,** Costa Cruises, Cunard Line, **P&O Cruises,** Ocean **Village** Swan **Hellenic, AIDA,** A'ROSA, and **P&O Cruises Australia** are all Included in **this** group.

Together, these brands operate 66 **ships totaling** more than 100,000 **lower** berths with 17 new ships scheduled for **delivery** between now and **mid-2006.** It also operates three **riverboats** on **Europe's** Danube River and the leadlng tour companles In Alaska and the Canadlan Yukon, Holland America Tours and **Princess** Tours. Traded both the New York and London Stock Exchanges, Carnival Corporatlon & plc IS the only ● ntltY In the world to b Included In both the S&P 500 and the **FTSE** 100 Indlces.

Shareholder Information
Exchanges

New York Stock Exchange
London Stock Exchange

CARNIVAL
CORPORATION&PLC

WORLD'S LEA
CRUISE LINE

CARNIVAL CORPORATION HISTORICAL BACKGROUND

Although the name Carnival Corporation didn't come into existence until 1993, the foundatlon for the company was laid when Its flagship brand, Carnlval Cruise Llnes, was formed In 1972 by cruise Industry pioneer, the late Ted Arison.

After achieving Its position as the world's most popular cruise line, Carnlval made an Initial public offerlng of 20 percent of Its common stock In 1987, which provlded the influx of capital that allowed the company to begin expanding through acqulsltlon.

Over the past 14 years, Carnlval has acquired representation in virtually every market segment of the cruise industry, including premium operator Holland America Llne In 1989 (the purchase also Included niche cruise line Windstar Cruises and Alaskan/Canadian tour operator Holland America Tours); luxury brand Seaboum Cruise Llne In 1992; contemporary operator Costa Cruises, Europe's leadlng cruise company, In 1997; and luxury operator Cunard Line in 1998, which is currently building the world's largest ocean liner, the 150,000-ton Queen Mary 2.

On April 17, 2003, agreements were finalized to combine Carnival Corporation with P & 0 Princess Cruises plc, creating a global vacation leader wlth 13 brands encompassing 66 ships and more than 100,000 lower berths, maklng it one of the largest leisure travel companies in the world.

Carnival's unprecedented rise to world's largest cruise operator can be attnbuted to its ability to manage brand autonomy, with each major cruise line malntainlng separate sales, marketing and reservatlon offices, as well as through Its wide-ranglng newbuilding program, which has seen 30 new ships Introduced over the past 21 years.

This growth will continue with the launch of 17 new ships between now and 2006.

P 8 0 PRINCESS HISTORICAL BACKGROUND

P & O Princess was founded by the demerger of the cruise business Of The Peninsular and Oriental

Steam Navigation Company in October 2000. P & 0 Pnncess cruise business has had over 150 years of maritime history. From established positions In the United Kingdom and Australian cruise industries P & 0 Princess improved Its position in the North American cruise industry In the 1970s and 1980s through the acquisitions of Pnncess Crulses and Sitmar Cruises. Over the last decade, P & 0 Princess has grown mainly through new shipbuilding's.

In the United Kingdom, P & 0 Princess has a long history Of passenger cruising which began in the 1840s and has included such well-known vessels as the Canberra. P & O Princess has capitalized on the strength of the P & 0 Cruises brands with the successful introduction of four ships over the last seven years, two of which have been built specifically for the British market. In 2002, P & 0 Princess announced the launch of a new United Kingdom cruise brand, Ocean Village, which is scheduled to commence operations in May 2003.

In 1999, P & 0 Princess entered the German cruise industry wlth the acquisition of a majority stake in AIDA Cruises, which in its first seven years of operation has, according to commissioned third-party research, become one of the best known cruise Products in *Germany.* In 2000, *P* & *0* Pnncess acquire the remainder of AIDA Crulses and in 2002 commenced the operation of a new brand, A'ROSA, in Germany.

In October 2002, P & 0 Princess acquired two Of the former Renaissance Cruises vessels under a lease purchase structure.

RCL0045

Carnival Corporation
Balance Sheet Highlights
(as of 11/01/02)

Currency: US Dollar

All values in millions unless otherwise specified.

Assets [Definitions]

	W End 11/02	W End 11/01	W End 11/00	W End 11/99	W End 11/98
Current Assets					
Cash 8 Equivalents	$706	$1,458	$195	$545	$143
Accounts Receivable	$108	$91	$95	$63	$61
Inventories	$91	$92	$100	S84	575
Total Current Assets	$1,132	$1,959	SS49	$792	5370
Gross Fixed Assets (PP&E)	$12,102	$10,099	$9,486	$7,680	$6,820
Intangibles	S681	$652	$701	$462	S437
Total Assets	$12,335	$11,564	$9,831	$8,286	$7,179

Liabilities & Stockholders' Equity [Definitions]

	W End 11/02	W tnd 11/01	W end 11/00	W End 11/99	W end 11/98
Liabilities					
Accounts Payable	$269	$269	$333	$196	$169
Short-Term Debt	$149	$22	$248	$206	$68
Other Current Liabilities	$1,202	$1.189	$1,134	$1,003	$899
Total Current Liabilities	$1,620	$1,480	$1,715	$1,405	$1,135
Long-Term Debt	53,012	52,955	52,099	$868	$1,563
Total Liabilities	$4,917	14,973	53,961	$2,355	$2,894
Stockholders' Equity					
Preferred Stock Equity	so	so	$0	$0	$0
Common Stock Equity	$7,418	$6,591	$5,871	15,931	$4,285
Total Stockholders' Equity	$7,418	56,591	$5,871	55,931	64,285
Total Liabilities & Stockholders' Equity	$12,335	511,564	59,831	$8,286	57,179

Carnival Corporation & Carnival plc (ticker: CCL, exchange: New York Stock Exchange)
News Release - 3/21/2003

Carnival Corporation Reports First Quarter Earnings

MIAMI, Mar 21, 2003 /PRNewswire-FirstCall via COMTEX/ -- Carnival Corporation (NYSE: CCL) reported net income of $126.9 million ($0.22 diluted EPS) on revenues of $1.03 billion for its first quarter ended February 28, 2003, compared to net income of $129.6 million ($0.22 diluted EPS) on revenues of $906.5 million for the same quarter in 2002. Earnings for the first quarter of 2003 Included nonoperating income of $14.7 million, resulting from net insurance proceeds of $19 million, less certain other nonoperating expenses. Earnmgs for the first quarter of 2002 included $5 million of nonoperating income.

Cruise revenues for the first quarter of 2003 were up 14 percent compared to the same quarter in 2002 due to an increase in capacity of 14.7 percent, partially offset by a decline in the number of guests purchasing air transportation from the company. Net revenue yields (net revenue per available lower berth day after deducting the cost of air transportation and travel agent commissions) for the quarter were approximately equal to the first quarter of last year. However, excluding the impact of an increase in capacity weighted toward the lower priced contemporary cruise products, net revenue yields for the 2003 quarter were 2 percent higher.

Cruise costs per available lower berth day were 6.3 percent higher compared to the same quarter in 2002 due primarily to increased fuel costs, the front-loading of advertising expenses into the first half of 2003 and increased insurance, environmental and security expenses. Higher fuel costs accounted for 60 percent of the increase in cost per available lower berth day.

“Our first quarter 2003 results were impacted by concerns about a war with Iraq, an uncertain worldwide economy and historically high fuel costs,” said Carnival Corporation Chairman and CEO Micky Arison. “These factors created an extremely challenging environment for leisure travel businesses around the world. Despite these adversities, we had a reasonably satisfactory quarter, again demonstrating the resiliency of our cruise business,” Arison noted.

During the first quarter of 2003, Holland America Line launched the new 1,848-passenger Zuiderdam from Fort Lauderdale, Fla., the first ship in its new Vista-class series, which offers about 85 percent of its cabins with ocean views, of which approximately 80 percent have balconies. Arison noted that the ship has been receiving rave reviews from consumers and travel agents alike, as well as receiving a premium price compared to the other Holland America ships.

Looking to the remainder of 2003, the factors which affected the first quarter are also impacting the balance of the year, particularly the second quarter. Bookings for the second quarter slowed as concerns over the war with Iraq heightened, causing a

RCLO047

close-in booking curve and resulting in a reduction in cruise prices. Because of the Iraqi war and its impact on consumer travel, the company is not able to give specific guidance for second quarter net revenue yields, other than they are expected to be less than last year. Costs per available lower berth day are expected to rise approximately 10 to 12 percent in the second quarter compared to last year's levels due primarily to the same cost areas, which affected the first quarter of 2003.

Booking volumes for the second half of 2003 remain slightly ahead of last year's levels but not commensurate with the increase in capacity expected for the second half of the year. Pricing remains slightly below last year's levels. Because of the close-in booking pattern and the uncertain geopolitical environment, it is too early to give net revenue yield guidance for the second half of 2003. Excluding the impact of higher fuel costs, operating costs per available lower berth day in the second half of 2003 are expected to be down slightly as compared to the second half of 2002.

"Although in the short term bookings have been impacted by the external factors discussed above, we believe that the fundamental long-term drivers of the cruise Industry's growth, such as favorable demographics and low penetration of the vacation market, remain intact," Arison said. "It is primarily because of these factors that we have entered into our proposed combination with P&O Princess Cruises plc," Arison noted. "Now that we are within sight of the completion of this transaction, we are particularly excited about the future prospects for the combined group and believe that our 16-month effort to combine with P&O Princess will bring enhanced value and opportunity to the shareholders and employees of both companies."

Documents regarding Carnival's dual listed company ("DLC") combination with P&O Princess were mailed to Carnival and P&O Princess shareholders this week. Extraordinary General Meetings for shareholder approval of the DLC proposal are scheduled for April 14, 2003 for Carnival shareholders and April 16, 2003 for P&O Princess shareholders. Subject to shareholder approval, Carnival expects closing of the transaction to occur shortly thereafter.

Assuming the transaction closes in April, Carnival would include P&O Princess' operations in its consolidated operating results commencing with Carnival's 2003 second quarter. The guidance provided above does not take into account the consolidation of P&O Princess.

Carnival has four new ships scheduled for delivery this year. Costa Cruises' 2,114-passenger Costa Medrterranea is expected to be delivered in May 2003, Carnival Cruise Lines' 2,974-passenger Carnrval Glory and Holland America's 1,848-passenger Oosterdam in June 2003, and Costa's 2,720-passenger Costa Fortuna in November 2003.

Carnival has scheduled a conference call with analysts at 10 a.m. EST (15.00 London time) today to discuss its 2003 first quarter earnings. This call can be listened to live, and additional information can be obtained, at the company's web site at www.carnivalcorp.com.

RCL0048

Carnival Corporatron is comprised of Carnival Cruise Lines, the world's largest cruise line based on passengers cart-ted, Costa Cruises, Cunard Line, Holland America Line, Seabourn Cruise Line and Windstar Cruises. Carnival Corporation's six brands operate 45 ships in the Bahamas, the Caribbean, Alaska, Europe, Mexico, South America and other worldwide destinations, and have 13 new ships scheduled for delivery between now and mid-2006.

Cautionary note concerning factors that may affect future results

Certain statements in this announcement are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Carnival Corporatron has tried, wherever possible, to identify such statements by using words such as "will," "may," "anticipate," "estimates," "assume," "believe," "expect," "forecast," "future," "intend," "plans" and words and terms of similar substance in connection with any discussion of future operating or financial performance. Because forward-looking statements, including those which may impact the forecasting of Carnival's net revenue yields, booking levels, pricing, occupancy, operating, financing and tax costs, estimates of ship depreciable lives and residual values, or business prospects, involve risks and uncertainties, there are many factors that could cause Carnival's actual results, performance or achievements to differ materially from those expressed or implied by such forward-looking statements. Such factors Include, among others, the following: general economic and business conditions, which may impact levels of disposable income of consumers and the net revenue yields for Carnival's cruise brands; conditions in the cruise and land-based vacation Industries, including vacation industry competition and Increases in capacity offered by cruise ship and land-based vacation alternatives; effects on consumer demand of the international political and economic climate, and armed conflict, terrorist attacks, adverse publicity and the availability of air service; continued availability of attractive port destinations; changes in environmental, health, safety, security and other regulatory regimes under which Carnival operates; Carnival's ability to obtain financing on terms that are favorable or consistent with its expectations; Carnival's financial and contractual counterparties' ability to perform; Carnival's ability to implement its shipbuilding programs and brand strategies and to continue to expand its businesses worldwide; Carnival's ability to attract and retain shipboard crew and maintain good relations with employee unions; the impact of changes in operating and financing costs, including changes in foreign currency and interest rates and increases in food, fuel, insurance and security costs; weather patterns and natural disasters; accidents and other incidents at sea affecting the health, safety, security and vacation satisfaction of passengers; Carnival's ability to successfully implement cost improvement plans and to integrate business acquisrtrons; the continuing financial viability of Carnival's travel agent distribution system; and the ability of a small group of shareholders effectively to control the outcome of shareholder voting. Forward-looking statements should not be relied upon as a prediction of actual results. Subject to any continuing obligations under applicable laws, Carnival expressly disclaims any obligation to disseminate any updates or revisions to any such forward-looking statements to reflect any change in expectations or events, conditions or circumstances on which any such statements

RCL0049

are based.

Carnival filed with the U.S. Securities and Exchange Commission in connection with its dual listed company proposal (which includes a partial share offer to P&O Princess shareholders) a registration statement on Form S-4/proxy statement on Schedule 14A, as well as a registration statement on Form S-4/statement on Schedule TO. Both registration statements contain a prospectus and other documents relating to the dual listed company proposal. Carnival has mailed to shareholders of P&O Princess the prospectus contained in the registration statement/Schedule TO declared effective by the SEC. Carnival has also mailed the proxy statement and the prospectus contained in the registration statement/proxy statement to its shareholders. These registration statements, the prospectuses, the proxy statement and the Schedule TO contain important information about Carnival, P&O Princess, the dual listed company proposal and related matters. Stockholders should read the registration statements, the prospectuses, the proxy statement, the Schedule TO and the other documents filed with the SEC in connection with the dual listed company proposal carefully before they make any decision with respect to the proposal. The registration statements, the prospectuses, the proxy statement, the Schedule TO and all other documents filed with the SEC in connection with the dual listed company proposal and prior pre-conditional offer are available free of charge at the SEC's web site, at www.sec.gov. In addition, these documents are available to shareholders free of charge by writing to Tim Gallagher at Carnival Corporation, Carnival Place, 3655 N.W. 87 Avenue, Miami, Florida, 33178-2428.

In addition to the registration statements, the prospectuses, the proxy statement, the Schedule TO and the other documents filed with the SEC in connection with the dual listed company proposal, Carnival is obligated to file annual, quarterly and current reports, proxy statements and other information with the SEC. Persons may read and copy any reports, statements and other information filed with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at l-800-732-0330 for further information on the public reference room. Filings with the SEC also are available to the public from commercial document-retrieval services and at the web site maintained by the SEC at www.sec.gov.

The identities of the participants in the solicitation of Carnival shareholders for purposes of Rule 14a-12(a)(1) under the Securities Exchange Act of 1934 and their interests in the offer and transactions related to it are set forth in Appendix VI to Carnival's filing under rule 423 dated October 25, 2002.

Implementation of the dual listed company proposal is subject to various conditions, including the approvals of Carnival and P&O Princess shareholders.

CARNIVAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

RCL0050

	THREE MONTHS ENDED FEBRUARY 28, 2003	2002 (a)
	(in thousands, except earnings per share)	
Revenues	$1,031,105	$906,531
Costs and Expenses		
Operating	615,194	519,562
Selling and administrative	177,118	151,403
Depreciation and amortization	106,483	89,754
	898,795	760,719
Operating Income	132,310	145,812
Nonoperating (Expense) Income		
Interest income	4,229	6,663
Interest expense, net of capitalized Interest	(29,392)	(29,455)
Other income, net	14,729 (b)	4,959
	(10,434)	(17,833)
Income Before Income Taxes	121,876	127,979
Income Tax Benefit, Net	5,003	1,661
Net Income	$126,879	$129,640
Earnings Per Share		
Basic	$0 22	$0.22
Diluted	$0.22	$0 22
Weighted Average Shares Outstanding - Basic	586,895	586,268
Weighted Average Shares Outstanding - Diluted	587,780	587,739

(a) Certain amounts in 2002 have been reclassified to conform to the 2003 presentation.

(b) Includes $19 million from net Insurance proceeds, less certain other nonoperating expenses

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CARNIVAL CORPORATION
SELECTED INFORMATION

	THREE MONTHS ENDED FEBRUARY 28,	
	2003	2002 (a)
	(in thousands, except percentages)	
SEGMENT INFORMATION		
Revenues		
Cruise	$1,027,475	$901,263
Tour	5,519	5,706
Intersegment elimination	(1,889)	(438)
	$1,031,105	$906,531
Operating expenses		
Cruise	$609,410	$512,236
Tour	7,673	7,764
Intersegment elimination	(1,889)	(438)
	$615,194	$519,562
Selling and administrative expenses		
Cruise	$169,501	$143,777
Tour	7,617	7,626
	$177,118	$151.403
Operating income (loss)		
Cruise	$143,557	$156,983
Tour	(11,247)	(11,171)
	$132,310	$145,812
STATISTICAL INFORMATION		
Passengers carried	923	772
Available lower berth days	5,805	5,060
Occupancy percentage	102 8%	102.8%

(a) Certain amounts in 2002 have been reclassified to conform to the 2003 presentation In addition, in 2003 the company commenced allocating all corporate expenses to its cruise segment and, accordingly, the 2002 presentation has been restated to conform to the 2003 presentation

SOURCE Carnival Corporation

CONTACT: Investors - Beth Roberts, +1-305-599-2600, ext. 19066, or Media - Tim Gallagher, +1-305-599-2600, ext. 16000, both of Carnival Corporation URL: http://www.carnival.com

RCL0052

Filing under Rule 425 under
the Securities Act of 1933
and deemed filed under Rules 14d-2 and 14a-12
of the Securities Exchange Act of 1934
Filing by: Carnival Corporation
Subject Company: P&O Princess Cruises plc.
SEC File No. of Princess: 001-15136

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]
CARNIVAL
CORPORATION
SALOMON SMITH BARNEY
LEISURE CONFERENCE
FEBRUARY 19, 2003

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THE NEW CARNIVAL CORPORAITON . . .
A POWERFUL GLOBAL LEISURE COMPANY

THE NEW CARNIVAL CORPORATION

- Combination of Carnival/P&O Princess creates global leisure powerhouse
- Largest cruise company in North America, UK & Europe
- Strongest brand awareness in North America, UK & Europe
- Targeted capacity additions spread over eight brands to drive earnings growth
- Strong operating cash flow and balance sheet to fund growth initiative

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THE NEW CARNIVAL CORPORATION

STRATEGIC RATIONALE

- Creates the leading global cruise vacation company in the fastest growing area of the vacation market
- Accelerates CCL's expansion outside of North America with highly-complementary, well-recognized brands
- Allows access to two of the world's largest equity markets and expected to be the only company in both the FTSE 100 and S&P 500
- All stock, no cash transaction - preserves strong balance sheet and credit rating

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THE NEW CARNIVAL CORPORATION

A GLOBAL, DIVERSIFIED LEISURE COMPANY

	CCL	POC	NEW CARNIVAL CORPORATION
Revenue ($m) (1)	$4,368	$2,613	$6,981
EBITDA ($m) (1)	$1,424	$ 586	$2,010
Passengers carried (m) (1)	3.6	1.1	4.7
Fleet Size (ships) (2)	45	20	65
Ships on Order	13	5	18
Berths (000s) (2)	61.3	32.7	100.0
Berths on Order (000s)	30.6	11.7	42.3

Source: Company accounts and filings

(1) Fiscal year 2002

(2) For POC fleet size and berths it includes the former Renaissance vessels, R3 and R4, acquired in August 2002, excludes the Victoria and Pacific Princess (announced withdrawals) and river boats

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THE NEW CARNIVAL CORPORATION

KEY TERMS OF DLC PROPOSAL

STRUCTURE	o	Dual listed company structure and Partial Share Exchange offer
PARTIAL SHARE OFFER	o	Carnival 74%
	o	P&O Princess 26%
	o	Based on a share exchange ratio of 1 POC Ordinary Share = 0.3004 CCL shares
PARTIAL SHARE OFFER	o	DLC Structure includes a Partial Share offer by which POC shareholders can exchange POC Shares for CCL shares (maximum of 20% of POC's issued share capital)
TIMETABLE	o	Closing estimated in April Contingent upon CCL & POC Shareholder votes

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THE NEW CARNIVAL CORPORATION

P&O PRINCESS SHAREHOLDERS — CARNIVAL SHAREHOLDERS

P&O Princess Shares — Carnival Shares (2)

<------------> EQUALISATION AND GOVERNANCE AGREEMENT <------------>

P&O PRINCESS — CARNIVAL

CROSS SHAREHOLDING (1)
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RCL0055

P&O PRINCESS ASSETS

CARNIVAL ASSETS
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(1) Represents CCL holding in POC arm of DLC of up to 20%, dependent on take up of Partial Share Offer
(2) Does not reflect Shareholder voting mechanism

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THE NEW CARNIVAL CORPORATION

DLC STRUCTURAL BENEFITS

- Economic interests of CCL and POC are aligned - will be managed as a single economic enterprise
- CCL will be the 120th largest company in the S&P 500 with a market capitalization of $13.6 billion (1)
- POC will be the 63rd largest company in the FTSE 100 with a market capitalization of (pounds) 2.7 billion (1)
- All stock, no cash transaction - preserves strong balance sheet and credit rating
- Avoids Carnival stock flowback issues

(1) Source: Bloomberg. Based on the market capitalization as of 14 February 2003

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THE NEW CARNIVAL CORPORATION

BOARD AND MANAGEMENT

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- CCL and POC to have identical boards
  > Representatives from both CCL and POC will join new boards
  > Boards structured to meet UK and new US requirements for independent board members

- Identical management team for both sides of DLC

- CCL and POC senior management expected to continue
  > Peter Ratcliffe to continue to manage POC's operations

- Corporate headquarters for group to be in Miami
  > Small corporate office in the UK

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THE NEW CARNIVAL CORPORATION

SIMPLIFIED REPORTING

- DLC to report in both US and UK denominated in US$ for combined business

- DLC to report in US GAAP

- One combined annual report will comply with UKLA listing rules and US disclosure requirements

- One POC Share to equal one CCL share

- One common divident

- POC to change financial year end to 30 November

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THE NEW CARNIVAL CORPORATION

ENHANCED GLOBAL DIVERSIFICATION

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CCL BERTH DAYS TODAY CCL/POC BERTH DAYS IN 2005 (1)

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Germany	1%	Australia	1%
United Kingdom	2%	Germany	6%
Southern Europe	15%	United Kingdom	10%
North America	82%	Southern Europe	13%
		North America-	70%

Source: POC Company websites
(1) Based on anticipated CCL/POC available berth days. 50% of Cunard berths allocated to the UK, includes riverboats

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THE NEW CARNIVAL CORPORATION

STATE-OF-THE-ART COMBINED FLEET

- Combination of modern fleets
  - Addition of POC fleet with average age of 6.0 years reduces average from 8.3 to 7.5 years
- Introduction of new state-of-the-art ships
  - Increased ratio of balcony cabins on a new ships maximizes yields
  - Combined, the CCL/POC fleet has approximately 28% balcony cabins (1)
- Greater number of berths per ship maximizes operating efficiencies
  - Average of 1,505 berths per ship by end of November 2002 expected to increase to 1,683 by 2005 (2)

(1) Company estimates
(2) Excludes POC River Boats

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]

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THE NEW CARNIVAL CORPORATION

DELIVERABLE SYNERGIES

RCL0058

- CCL estimates synergies of at least $100 million on an annual basis commencing in first full financial year (2004) following transaction
- Savings realized principally through the application of best practices, particularly
  - Procurement
  - Contractual savings
  - Rationalization of certain operations
  - Technology
  - Elimination of redundant costs

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]

THE NEW CARNIVAL CORPORATION

STRONG BALANCE SHEET TO DRIVE FUTURE GROWTH

[GRAPHIC OMITTED]

RATING (1)

A2

CCL today

A3

Baa1

POC pre-20 Nov

Baa2

Baa3

POC today

Investment Grade

Non-Investment Grade

Ba1

Ba2

	CCL (2)	POC (2)
Net Debt / EBITDA (LTM)	1.7x	4.2x
Net Debt / Net Book Cap	25.2%	46.8%

RCL0059

Debt Ratings (S&P/Moody's)	A/A2	BBB/Baa3
Liquidity ($m)(3)	$2,201	$1,802

(1) Credit ratings as per Moody's Investors Service
(2) As of November 2002 for CCL and December 2002 for POC
(3) Liquidity calculated as cash plus committed undrawn facilities

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MARKET STRATEGY

THE NEW CARNIVAL CORPORATION

FOUR PRIMARY CRUISE REGIONS

- North America, U.K., Germany and Southern Europe account for 85% of global cruise passengers

[GRAPHIC OMITTED]

	CRUISE PASSENGERS IN MILLIONS
NORTH AMERICA	6.9
U.K.	0.8
SOUTHERN EUROPE	0.7
GERMANY	0.4

Source: GP Wild data for 2001

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RCL0060

THE NEW CARNIVAL CORPORATION

WIDE PORTFOLIO OF HIGHLY COMPLEMENTARY BRANDS

- POC's brands complement CCL's - by geography & product offering

[GRAPHIC OMITTED]

NORTH AMERICA	UNITED KINGDOM	GERMANY
Carnivai Cruise Lines	P&O Cruises	AIDA Cruises
Princess	Cunard	Arosa
Holland America	Ocean Village	**S. EUROPE**
Windstar Cruises	Swan Hellenic	Costa
Seabourn		**AUSTRALIA**
		P&O Cruises

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THE NEW CARNIVAL CORPORATION

HIGH BRAND AWARENESS

- New Carnival brands enjoy the highest levels of unaided brand awareness among North American and UK cruise operators . . .

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NORTH AMERICA (1)		UNITED KINGDOM (2)	
Carnival	52%	P&O Cruises	63%
Princess	38%	Cunard	29%
RCI	23%	Thomson	20%
NCL	21%	Airtours	20%

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HAL	15%	Fred Olsen	19%

(1) Source: TRD Frameworks

(2) Source: P&O Princess Cruises plc shareholder circular dated February 5, 2002

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]

THE NEW CARNIVAL CORPORATION

HIGH BRAND AWARENESS (CONT'D)

- ... as well as among German and Italian cruise operators

[GRAPHIC OMITTED] [GRAPHIC OMITTED]

GERMANY (1)		ITALY (2)	
Aida	15.0%	Costa	21.9%
Deutschland	11.0%	Festival	0.4%
Europa	10.0%	Carnival	0.3%
Berlin	10.0%	MSC	0.2%
Astor	5.0%		

(1) Source: P&O Princess Cruises plc shareholder circular dated February 5, 2002

(2) Source: Company data. Represents survey of tour operators

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]

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INDUSTRY OUTLOOK -
POSITIVE FUNDAMENTALS

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CRUISING CONTINUES ITS STRONG GROWTH IN NORTH AMERICA

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GROWTH IN NORTH AMERICAN LEISURE VS. CRUISE TRAVEL
(1997 - 2001)

[GRAPHIC OMITTED]

LEISURE TRAVEL GROWTH	1.8%
CRUISE TRAVEL GROWTH	8.3%

Source: GP Wild & TIA

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...AND IS SUPPORTED BY FAVORABLE DEMOGRAPHICS

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2002 NORTH AMERICAN CRUISE PASSENGER DEMOGRAPHICS (1)

[GRAPHIC OMITTED]

72% of Cruise Market are age 40+

Age 25-40	28%
Age 40-59	42%
Age 60t	30%

GROWTH OF NORTH AMERICAN POPULATION BETWEEN AGE 45 AND 69 (MILLIONS) (2)

[GRAPHIC OMITTED]

2000	72mm
2010	94mm

31% Growth

(1) Source: GP Wild
(2) Source: The World Bank

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]

RCL0063

CRUISE VACATIONERS HAVE HIGHEST LEVEL OF SATISFACTION

SATISFACTION WITH VACATIONS TAKEN IN PAST 5 YEARS:
PERCENT "EXTREMELY SATISFIED" (1)

CRUISE	34%
VACATION HOUSE RENTAL	30%
VISIT TO FRIENDS/RELATIVES	29%
PACKAGE TOUR	25%
RESORT VACATION	24%
LAND-BASED ESCORTED TOUR	24%
TRIP USING INDIVIDUAL RESERVATIONS	23%
VACATION AS PART OF A BUSINESS	19%

(1) Source: CLIA

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]

CRUISING GROWTH IN EUROPE

CRUISING IS GROWING FASTER AS A VACATION ALTERNATIVE IN EUROPE THAN IT IS IN NORTH AMERICA

[GRAPHIC OMITTED]

	1997 PASSENGERS (000s)	2001 PASSENGERS (000s)	CAGR (%)
UK	518	769	10.3%
GERMANY	284	392	8.5%
FRANCE, ITALY & SPAIN	205	709	15.0%

(1) Source: GP Wild

RCL0064

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]

EUROPEAN CRUISE PENETRATION

EUROPE UNDER-PENETRATED RELATIVE TO THE US

[GRAPHIC OMITTED]

	CRUISE PASSENGERS AS % OF VACATIONERS
UK	1.5%
GERMANY	0.5%
FRANCE, ITALY & SPAIN	1.6%
US	3.0%

Source: PSA (for number of cruise passengers in 2001), Euromonitor (for number of outbound vacationers in 2001) and Company for US penetration percentage.

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MORE ATTRACTIVE LIFESTYLE TRENDS IN EUROPE

AVERAGE DAYS SPENT ON VACATION

[GRAPHIC OMITTED]

	DAYS
U.S.	13
U.K.	28
GERMANY	35
SOUTHERN EUROPE	40

RCL0065

Source: WTO

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]

NEW CARNIVAL'S ORGANIC GROWTH WILL BE
PRIMARY DRIVER OF EARNINGS

PROJECTED NEW CARNIVAL AND INDUSTRY CAPACITY GROWTH
(AVAILABLE BERTH DAYS) (1)

[GRAPHIC OMITTED]

	2003	2004	2005	2006
North America	10.3%	12.7%	7.0%	3.6%
UK/Europe	7.9%	5.8%	2.7%	0.1%
Industry Average	9.8%	10.5%	3.6%	--

Source: Company estimates
(1) Note: Represents anticipated available berth days year-over-year growth for CCL & POC combined

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CRUISING - A RESILIENT INDUSTRY

RCL0066

CARNIVAL HAS PROVED RESILIENT IN DIFFICULT ENVIRONMENTS

- In 1991 during the Gulf War, CCL net yields were down 3.3% and Carnival grew its earnings 8%
- 2002 Improvement in CCL Net Yields

[GRAPHIC OMITTED]

	NET YIELD CHANGE (%)
Q1	(7.5)
Q2	(5.3)
Q3	(0.8)
Q4	2.6

- Even in a very tough 2002, operating cashflow grew to $1.5 billion ($230 million more than previous best year)
- We believe CCL is likely to outperform other travel/leisure companies in difficult environments

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ATTRACTIVE VALUE OPPORTUNITY

CARNIVAL - ATTRACTIVE RELATIVE VALUATION

CCL IS CURRENTLY TRADING AT A SIGNIFICANT DISCOUNT TO HISTORICAL AVERAGE

[GRAPHIC OMITTED]

	1991-2002 AVERAGE (1)	2002 P/E (1)	DISCOUNT %
S&P 500	24.3x	28.1x	23.5%

CCL	18.6x	13.2x	53.0%

Source : Company filings/Datastream. Based on closing prices as of February 11, 2003

(1) Represents trailling multiples

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CONCLUSION

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THE NEW CARNIVAL CORPORATION
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o Combination of Carnival/P&O Princess creates global leisure powerhouse

o Largest cruise company in North America, UK & Europe

o Strongest brand awareness in North America, UK & Europe

o Targeted capacity additions spread over eight brands to drive earnings growth

o Strong operating cash flow and balance sheet to fund growth initiative

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FORWARD LOOKING STATEMENTS AND RESPONSIBILITY
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CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS

CERTAIN STATEMENTS IN THIS PRESENTATION CONSTITUTE "FORWARD-LOOKING STATEMENTS"

RCL0068

WITHIN THE MEANING OF THE US PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. CARNIVAL CORDORATION ("CCL") HAS TRIED, WHEREVER POSSIBLE, TO IDENTIFY SUCH STATEMENTS BY USING WORDS SUCH AS "ANTICIPATE," "ASSUME", "BELIEVE," "EXPECT," "FORECAST," "FUTURE," "INTEND," "PLAN" AND WORDS AND TERMS OF SIMILAR SUBSTANCE IN CONNECTION WITH ANY DISCUSSION OF FUTURE OPERATING OR FINANCIAL PERFORMANCE. THESE FORWARD-LOOKING STATEMENTS, INCLUDING THOSE WHICH MAY IMPACT THE FORECASTING OF CCL'S NET REVENUE YIELDS, BOOKING LEVELS, PRICING, OCCUPANCY OR BUSINESS PROSPECTS, INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, WHICH MAY CAUSE CCL'S ACTUAL RESULTS, PERFORMANCES OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCES OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. SUCH FACTORS INCLUDE, AMONG OTHERS, THE FOLLOWING: REGULATORY AND SHAREHOLDER APPROVALS OF THE DLC TRANSACTION; ACHIEVEMENT OF EXPECTED BENEFITS FROM THE DLC TRANSACTION; RISKS ASSOCIATED WITH THE COMBINATION OF CCL'S AND POC'S BUSINESSES BY MEANS OF THE DLC STRUCTURE; LIQUIDITY AND INDEX INCLUSION AS A RESULT OF THE IMPLEMENTATION OF THE DLC STRUCTURE, INCLUDING A POSSIBLE MANDATORY EXCHANGE; RISKS ASSOCIATED WITH THE UNCERTAINTY OF THE TAX STATUS OF THE DLC STRUCTURE; GENERAL ECONOMIC AND BUSINESS CONDITIONS WHICH MAY IMPACT LEVELS OF DISPOSABLE INCOME OF CONSUMERS AND THE NET REVENUE YIELDS FOR THE CRUISE BRANDS OF CCL, POC AND THE COMBINED GROUP; CONDITIONS IN THE CRUISE AND LAND-BASED VACATION INDUSTRIES, INCLUDING COMPETITION FROM OTHER CRUISE SHIP OPERATORS AND OTHER VACATION ALTERNATIVES AND INCREASES IN CAPACITY OFFERED BY CRUISE SHIP AND LAND-BASED VACATION ALTERNATIVE CAPACITIES; THE IMPACT OF OPERATING INTERNATIONALLY; THE INTERNATIONAL POLITICAL AND ECONOMIC CLIMATE, ARMED CONFLICT, TERRORIST ATTACKS AND OTHER WORLD EVENTS AND NEGATIVE MEDIA PUBLICITY AND THEIR IMPACT ON THE DEMAND FOR CRUISES; ACCIDENTS AND OTHER INCIDENTS AT SEA AFFECTING THE HEALTH, SAFETY AND SECURITY OF PASSENGERS; THE ABILITY OF CCL, POC AND THE COMBINED GROUP TO IMPLEMENT THEIR SHIPBUILDING PROGRAMS AND BRAND STRATEGIES AND TO CONTINUE TO EXPAND THEIR BUSINESSES WORLDWIDE; THE ABILITY OF CCL, POC AND THE COMBINED GROUP TO ATTRACT AND RETAIN SHIPBOARD CREW; THE ABILITY TO OBTAIN FINANCING ON TERMS THAT ARE FAVORABLE OR CONSISTENT WITH CCL'S, POC'S AND THE COMBINED GROUP'S EXPECTATIONS; THE IMPACT OF CHANGES IN OPERATING AND FINANCING COSTS, INCLUDING CHANGES IN FOREIGN CURRENCY AND INTEREST RATES AND SECURITY, FUEL, FOOD AND INSURANCE COSTS; CHANGES IN THE TAX, ENVIRONMENTAL AND OTHER REGULATORY REGIMES UNDER WHICH EACH COMPANY OPERATES; AND THE ABILITY OF A SMALL GROUP OF SHAREHOLDERS TO EFFECTIVELY CONTROL THE OUTCOME OF SHAREHOLDER VOTING.

THESE RISKS MAY NOT BE EXHAUSTIVE. CCL OPERATES IN A CONTINUALLY CHANGING BUSINESS ENVIRONMENT, AND NEW RISKS EMERGE FROM TIME TO TIME. CCL CANNOT PREDICT SUCH RISKS NOR CAN IT ASSESS THE IMPACT, IF ANY, OF SUCH RISKS ON ITS BUSINESS OR THE EXTENT TO WHICH ANY RISK, OR COMBINATION OF RISKS MAY CAUSE ACTUAL RESULTS TO DIFFER FROM THOSE PROJECTED IN ANY FORWARD-LOOKING STATEMENTS. ACCORDINGLY, FORWARD-LOOKING STATEMENTS SHOULD NOT BE RELIED UPON AS A PREDICTION OF ACTUAL RESULTS. CCL UNDERTAKES NO OBLIGATION PUBLICLY TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

CCL HAS FILED WITH THE US SECURITIES AND EXCHANGE COMMISSION IN CONNECTION WITH ITS DUAL LISTED COMPANY PROPOSAL (WHICH INCLUDES A PARTIAL SHARE OFFER TO POC SHAREHOLDERS) A REGISTRATION STATEMENT ON FORM S-4/PROXY STATEMENT ON SCHEDULE 14A, AS WELL AS A REGISTRATION STATEMENT ON FORM S-4/STATEMENT ON SCHEDULE TO. BOTH REGISTRATION STATEMENTS CONTAIN A PROSPECTUS AND OTHER DOCUMENTS RELATING TO THE DUAL LISTED COMPANY PROPOSAL. CCL PLANS TO MAIL TO SHAREHOLDERS OF POC THE PROSPECTUS CONTAINED IN THE REGISTRATION STATEMENT/SCHEDULE TO AFTER IT HAS BEEN DECLARED EFFECTIVE BY THE SEC. CARNIVAL PLANS TO MAIL THE PROXY STATEMENT AND THE PROSPECTUS CONTAINED IN THE REGISTRATION STATEMENT/PROXY STATEMENT TO ITS SHAREHOLDERS AT OR ABOUT THE SAME TIME. THESE REGISTRATION STATEMENTS, THE PROSPECTUSES, THE PROXY STATEMENT AND THE SCHEDULE TO WILL CONTAIN IMPORTANT INFORMATION ABOUT CARNIVAL, POC , THE DUAL LISTED COMPANY PROPOSAL AND RELATED MATTERS. SHAREHOLDERS SHOULD READ THE REGISTRATION STATEMENTS, THE PROSPECTUSES,

THE PROXY STATEMENT, THE SCHEDULE TO AND OTHER DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE DUAL LISTED COMPANY PROPOSAL CAREFULLY BEFORE THEY MAKE ANY DECISION WITH RESPECT TO THE PROPOSAL. THE REGISTRATION STATEMENTS, THE PROSPECTUSES, THE PROXY STATEMENT, THE SCHEDULE TO AND ALL OTHER DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE DUAL LISTED COMPANY PROPOSAL AND PRIOR PRECONDITIONAL OFFER WILL BE AVAILABLE WHEN FILED FREE OF CHARGE AT THE SEC'S WEB SITE, AT WWW.SEC.GOV. IN ADDITION, THESE DOCUMENTS WILL BE MADE AVAILABLE TO SHAREHOLDERS FREE OF CHARGE BY WRITING TO TIM GALLAGHER AT CARNIVAL CORPORATION, CARNIVAL PLACE, 3655 N.W. 87 AVENUE, MIAMI, FLORIDA, 33178-2428.

IN ADDITION TO THE REGISTRATION STATEMENTS, THE PROSPECTUSES, THE PROXY STATEMENT, THE SCHEDULE TO AND THE OTHER DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE DUAL LISTED COMPANY PROPOSAL, CARNIVAL IS OBLIGATED TO FILE ANNUAL, QUARTERLY AND CURRENT REPORTS, PROXY STATEMENTS AND OTHER INFORMATION WITH THE SEC. PERSONS MAY READ AND COPY ANY REPORTS, STATEMENTS AND OTHER INFORMATION FILED WITH THE SEC AT THE SEC'S PUBLIC REFERENCE ROOM AT 450 FIFTH STREET, N.W., WASHINGTON, D.C. 20549. PLEASE CALL THE SEC AT l-800-732-0330 FOR FURTHER INFORMATION ON THE PUBLIC REFERENCE ROOM. FILINGS WITH THE SEC ALSO ARE AVAILABLE TO THE PUBLIC FROM COMMERCIAL DOCUMENT-RETRIEVAL SERVICES AND THROUGH THE WEB SITE MAINTAINED BY THE SEC AT WWW.SEC.GOV.

THE IDENTITIES OF THE PARTICIPANTS IN THE SOLICATION OF CCL SHAREHOLDERS FOR PURPOSES OF RULE 14A-12(A)(1) UNDER THE SECURITIES EXCHANGE ACT OF 1934 AND THEIR INTERESTS IN THE OFFER AND TRANSACTIONS RELATED TO IT ARE SET FORTH IN APPENDIX V TO CCL'S FILING UNDER RULE 425, DATED JANUARY 8, 2003.

TERMS USED IN THIS PRESENTATION HAVE THE SAME MEANING AS IN THE ANNOUNCEMENT DATED JANUARY 8, 2003.

THE DIRECTORS OF CCL ACCEPT RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PRESENTATION. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS OF CCL (WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE SUCH IS THE CASE), THE INFORMATION CONTAINED HEREIN FOR WHICH THEY ACCEPT RESPONSIBILITY IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

MERRILL LYNCH INTERNATIONAL AND UBS WARBURG LTD., A SUBSIDIARY OF UBS AG, ARE ACTING AS JOINT FINANCIAL ADVISORS AND JOINT CORPORATE BROKERS EXCLUSIVELY TO CCL AND NO-ONE ELSE IN CONNECTION WITH THE DLC TRANSACTION AND WILL NOT BE RESPONSIBLE TO ANYONE OTHER THAN CCL FOR PROVIDING THE PROTECTIONS AFFORDED TO CLIENTS RESPECTIVELY OF MERRILL LYNCH INTERNATIONAL AND UBS WARBURG LTD. AS THE CASE MAY BE OR FOR PROVIDING ADVICE IN RELATION TO DLC TRANSACTION.

[GRAPHIC OMITTED - LOGO CARNIVAL CORPORATION]

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CARNIVAL
CORPORATION

RCL0070

SALOMON SMITH BARNEY
LEISURE CONFERENCE
FEBRUARY 19, 2003

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RCL007 1

Star Cruises Family

Norwegian Cruise Line

NCL is a leading cruise line that offers itineraries around the world. Its fleet of ships offers Freestyle Cruising which combines all the excitement of travel with the choices and relaxed lifestyle of a fine resort.
(www ncl com)

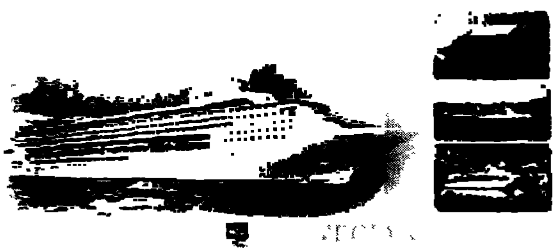
The recently acquired, Miami-based Norwegian Cruise Line (NCL) was first established in 1966 as Norwegian Carnbean Lines by one of Norway's oldest and most respected shipping companies, Oslo-based Klosters Rederi A/S.

NCL launched an entirely new concept by offering regularly scheduled cruises to the Carribean in a single-class atmosphere of informal luxury. No longer simply a means of transportation, the ship became a destination unto itself, providing guests with an exciting and affordable alternative to land-based resorbs.

NCL currently said to more than 200 ports in Alaska, Australia, Bermuda, Carnbean, Europe (Mediterranean, Baltic and Scandinavia), Hawaii, Mexico, South America and Trans Canal.

NCL's unique style of "Freestyle Cruising" - to be introduced on all NCL ships by summer 2001 - is a bold concept that challenges the conventional model of the cruise product in order to broaden its appeal not only amongst seasoned cruisers but also to a new and younger audience-one that is accustomed to a more relaxed, resort-style vacation. Passenger will be able to choose when, where, and with whom they dine. "Freestyle Cruising" will provide an unstructured, casual yet attentive atmosphere.

Click here for more information on Norwegian Cruise Line



Orient Lines

Come discover the world aboard the elegant Macro Polo or the regal Crown Odyssey. Orient Lines offers complete and m-depth cruise tours to over 170 destinations on all seven continents. For the past five years Orient Lines has been named 'Best Cruise Value' by the World Ocean & Cruise Liner Society.
(www orientlines corn)

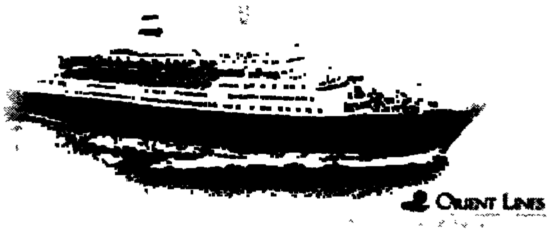
Orient Lines offers award-winning cruise vacations to all seven continents. The line's unique "cruise-tours" combine the cruise with included hotel stays and city tours in most embarkation/disembarkation cities. Additionally, there are on-board lectures by noted experts, as well as folkloric performances, wherever possible.

In summer, 11 to 20-day itineraries visit the Greek Isles and the Mediterranean, Scandinavia, Russia and North Europe. The balance of the year features exotic voyages to Australia & New Zealand, Africa & India, Asia & the South Pacific and South America & Antarctica.

Two elegant ships, the 800-passenger Marco Polo and the 1,000-passenger Crown Odyssey offer big-ship luxury and small-ship friendliness. Both offer superb service by European officers and a gracious Filipino crew. Readers of Condé Nast Traveler magazine have voted Orient Lines "Best Itineraries" and members of the prestigious World Ocean & Cruise Liner Society have rated the line "Best Cruise Value" for the fifth consecutive year.

In 2002, Star Cruises' Superstar Aries will be joining the Orient Lines fleet. She will be renamed Ocean Voyager. SuperStar Aries under the Star Cruises brand is presently homeported in Laem Chabang (Bangkok) offering Gulf of Siam cruises to Ko Samui, Ko Chang (Thailand) and Phu Quoc Island (Vietnam).

Click here for more information on Orient Lines - The Destination Cruise Specialists



ABO

savour ...the best life has to offer

Development of Star Cruises

A Vision Fulfilled

Star Cruises was incorporated in September 1993, representing a bold initiative to tap Asia-Pacific's potential as an international cruise destination.

Today, Star Cruises epitomises the fulfillment of regional aspirations to establish the cruise industry in the Asia-Pacific region, bringing increased tourism traffic into the countries around Asia-Pacific. Asian holiday makers now see cruising as an exciting and value-for-money vacation. Simultaneously, it also started the influx of travellers from North America, Europe and Australia, who joined Star Cruises holidays for a glimpse of the various sights and sounds of Asia-Pacific.

Within 9 years since its inception, Star Cruises has become the world's third largest cruise company. Star Cruises has won coveted awards that include.

1.	Best Cruise Operator - World Travel Awards 1996-1997 by World Travel Market
2.	Best Cruise Operator - Award for Excellence by Australian Federation of Travel Agents (AFTA) Western Australia Chapter, 1997-1999
3.	Best Cruise Operator in Asia-Pacific - TTG Asia Travel Award, April 1997-2002
4.	Most Improved Port Facilities: Star Cruises Terminal, Port Klang 1998 - Dream World Cruise Destinations 1998
5.	Best Cruise Company - Meetings & Conventions Gold Services Awards 1998 by Venture Asia Publishing, Publisher of Travel Asia, 1998
6.	New Player of the Year, SuperStar Leo - Travel Asia's Breakthrough Awards, April 1999
7.	Outstanding Cruise Sundeck - SuperStar Leo - ShipPax Award, May 1999
8.	Outstanding Cruise Saloons - SuperStar Leo - ShipPax Award, May 1999
9.	Outstanding Cruise Cabins - SuperStar Leo - ShipPax Award, May 1999
10.	International Safety Management (ISM) Certification - 1998
11.	High ratings for Star Cruises vessels - Berlitz Complete Guide to Cruises and Cruise Ships, and Fielding's Guide to Worldwide Cruises
12.	Best Cruise Award - Meetings & Conventions Asia/Pacific Gold Awards, by Venture Asia Publishing, Publisher of Travel Asia, 1999
13.	Best Cruise Product Overall - Tabs On Travel Industry, New Zealand, 1999
14.	Third Annual Salute to Youth and Training Award - by Lloyd's List and the International Maritime Industry, 2000
15.	First shipping company ever to be accredited by Panama Maritime Authority to conduct STCW-95 without involvement by external training institute, 2000
16.	Cruise Line of the Year - TravelAsia Breakthrough Awards, September 2000
17.	International Tour Operator, Friends of Thailand - Thailand Tourism Awards, September 2000
18.	Outstanding Contribution to Tourism - Singapore Tourism Board, November 2000
19.	Travel Management Grand Prix "International Carrier" award, Japan 2000
20.	Travel Weekly East "Innovator: Product" award, Journey Maker category, 2001
21.	Number One Quality Cruise Line, e-CruiseWorld and Maritime World, Nautilus Media 2000 /2001
22.	Best Cruise Line in Asia-Pacific, e-CruiseWorld and Maritime World, Nautilus Media, 2001
23.	Best Innovative Product, Outbound Travel Mart, India, 2002
24.	Best Website, Travel Product, TravelWeekly East Golden Web Awards, 2002
25.	Innovation in Marine Technology and Machinery, Safety and Environment, Lloyd's List-SMM Awards 2002

The Fleet

Star Cruises is the third largest cruise line in the world presently operating a combined fleet of 20 ships with over 26,000 lower berths, with cruises to destinations and islands in Asia-Pacific, North and South America, Caribbean, Alaska, Europe, Mediterranean, Bermuda and Antarctica under the Star Cruises, Norwegian Cruise Line, Orient Lines and Cruise Ferries brands.

Vessels operated under the Star Cruises' brand in Asia-Pacific are **Superstar Leo, Superstar Virgo, Superstar Aries, Superstar Gemini, Superstar Capricorn, Star Pisces, MegaStar Aries, MegaStar Taurus.**

The NCL group operates a fleet of eleven ships under two brands: **Norwegian Cruise Line,** with nine ships, offers mainstream cruises in the Caribbean, Alaska, Europe, Bermuda, and Asia-Pacific. **Orient Lines,** with two ships, offers destination-oriented cruises in Europe in the summer months and worldwide, as far as Antarctica, in the fall-through-spring. Both NCL and Orient Lines market primarily in North America but also extensively in the UK, Europe, South America, and Asia.

The Pride of America - the first of the two Project America vessels - is presently under construction at the Lloyd Werft shipyard in Germany. The 81,000-grt and 2,100 lower berth vessel is expected to commence Hawaii inter-island cruising next year with a "Best of America" theme. The second Project America vessel, which is currently sailing as Norwegian Sky will be renamed Pride of Aloha and will reflect a strong Hawaiian theme which will be accomplished after a refurbishment in September 2004. Both ships will sail under NCL's new US-flag brand - NCL America sm.

The Cruise Ferries brand which was launched in 2001 presently comprises the m.v. Wasa Queen.

The Star Series
Star Pisces has over 700 passenger cabins, reaching 12-deck high. Accessible by internal lifts, the 40,000-grt ship can accommodate over 2,000 passengers. **Star Pisces** was launched in May 1994.

The MegaStar Series
The MegaStar ships are ideal for private charters, such as hosting a wedding dinner, a company conference cum vacation or as one's personal yacht for a few days. Passenger comfort is a top priority and when it comes to service, the friendly and smiling crew really knows how to pamper our guests in style. Guests will find opulence in every detail on board.

The **MegaStar Taurus** and **MegaStar Aries** were previously known as **Aurora I** and **Aurora II** respectively, and constructed in 1991 at **Flender Werft, Germany.** After being purchased by Star Cruises, the 3,264-grt ships were further renovated with the latest safety features and launched in December 1994 and January 1995 respectively

The two MegaStar ships measure 85m in length and have a capacity for 72 passengers and 80 crew. Billed by the "Berlitz Complete Cruise Guide to Cruising and Cruise Ships" as two of the finest cruise ships (under 5,000-grt), they are designed to appeal to the niche market with their rich luxurious decor. Each cabin in the MegaStar ships are surprisingly large, offering superb sea views through its large windows. The ships have an added advantage of optional destinations as their size permits them to anchor very near off-shore islands around the region.

The Superstar Series
The Superstar-series ships comprise, **Superstar Leo, Superstar Virgo** and **Superstar Aries, Superstar Capricorn** and **Superstar Gemini.**

Superstar Leo Is "The Largest and First World-Class Megaship in Asia-Pacific". At 76,800-grt with a lower berth capacity for 1,960 passengers, she is the largest megaship in Asia-Pacific. She has set new standards in the cruise industry and offers unrivalled luxury for cruisers in Asia-Pacific.

Superstar Virgo is the twin sister ship of **Superstar Leo.** Delivered in August 1999, she measures 76,800-grt with a similar lower berth capacity. Her extensive facilities and features make her a favourite for cruisers who prefer activity-filled cruise vacations.

Superstar Aries joined the Star Cruises fleet in October 1999 after a multi-million dollar refit and refurbishment. Superstar Aries (formerly the MS Europa) was rated by the '1997 Berlitz Complete Guide to Cruising and Cruise Ships' as "The Best Cruise Ship in the World" She measures 37,301-grt with a capacity for 678 passengers.

Superstar Capricorn, at 28,388-grt has 431 cabins with a lower berth capacity for 692 passengers.

Superstar Gemini was built in 1992 at the Spanish shipyard Union Naval de Lanvante in Valencia for more than US$100 million. Launched in July 1995, the 19,089-grt ship has a capacity for 788 passengers and 470 crew.

A World Class Brand

In just 9 years from its inception, Star Cruises has achieved global recognition Today, it is the leading cruise line in Asia-Pacific and has quickly become one of the four largest cruise lines in the world.

As testimony to Star Cruises' commitment to world-class quality products and standards, the **Superstar Leo** won 3 out of a possible 8 international ShipPax awards for her outstanding cabins, saloons and sun decks in 1999.

Star Cruises has played the leading role in shaping the cruise industry in Asia-Pacific by offering new and luxurious megaships and exciting itineraries. The company also made important investments in marketing, operations, information technology, reservations systems, safety and infrastructure.

Star Cruises made it to the **Top 50 Asian Brands in 1999** and is the second leading brand that has the "Greatest Upward Movement Potential". It achieved the top brand name in the leisure category for "Top 50 Asian Brands League". (Source: Top Asian Brands, Asian Brand News, March 1999)

New and enhanced products and services provided by Star Cruises have set new standards of cruising in Asia-Pacific. The new megaships, **Superstar Leo** and **Superstar Virgo** now represent the best and most exciting vacation experience option to both the Asian holiday maker and experienced cruiser from America, Europe and Australia.

Star Cruises is also committed to developing the growing meetings and incentive segment of the cruise MICE market in Asia-Pacific. **Superstar Leo** and **Superstar Virgo** are able to cater to meeting and incentive groups of various sizes with their world-class food and beverage, entertainment and recreation facilities.

Fly cruise programmes will be intensified to capture the medium to long haul markets, and provide wider marketing opportunities. Currently, Star Cruises is developing its fly cruise hubs located in Singapore, Port Klang (Malaysia), Hong Kong and Bangkok (Thailand).

Star Cruises' award-winning product is noted for its excellent service standards and the highest crew-to-passenger ratio (1:2) of any major cruise line, reflecting the high standards of the hospitality industry in Asia-Pacific.

Star Cruises is represented in more than 20 locations worldwide with offices in Australia, New Zealand, China, Germany, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Norway, Philippines, Singapore, Sweden, Switzerland, Taiwan, Thailand, United Kingdom and the United States of America.

Safety & Training

The safety, health and well-being of cruise passengers are Star Cruises' top priorities. Star Cruises is one of the first cruise lines to be certified for the ISM (International Safety Management) Code in 1998 as directed by the IMO (International Maritime Organisation). Star Cruises has a young and modern fleet equipped with the latest in navigational control and fire systems and has Implemented extensive safety features such as "Hi-Fog" even in the engine rooms which are not required by IMO (International Maritime Organisation) regulation until 2005.

In training her officers, Star Cruises has built its own ship training simulator located within the Star Cruises Terminal, Port Klang complex. Completed in 1998, the Star Cruises Ship Simulator Centre (SCSS) is the only one of its kind in the world owned by a shipping company. The operation of the Centre is a joint-business agreement between Star Cruises and the renowned Danish Maritime Institute.

Star Cruises also created history by becoming the first shipping company ever to be accredited by the Panama Maritime Authority to carry out the STCW-95 (Seafarer's Training, Certification and Watchkeeping Code) without involvement by other external training institute. The STCW-95 training programmes are conducted on board Star Cruises' vessels and is fully endorsed by the International Maritime Organisation (IMO) and used to train captains, officers and crew.

Uodated: 23 Mav 2003

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FEBRUARY 2003

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Star Cruises plans development of US-flagged fleet

Marcus Hand
Section: Breaking News
Release Date: Monday February 24 2003
[Print Article]

STAR Cruises is planning a US-flagged cruise fleet as it pulls itself back into the black in 2002.

Last year the Malaysian-owned cruise line concentrated its efforts on building up its US operations under the NCL Group increasing capacity by 29%.

Star Cruises introduced two new ships into the NCL group, the Norwegian Star in mid-November 2001 and the Norwegian Dawn in December 2002.

Both ships offer the "freestyle cruising" concept that the company pioneered under the Star Cruises brand in Asia.

"The NCL brand continues to benefit from positive acceptance of the innovative Freestyle Cruising product and the geographically diverse Homeland Cruising deployment within North America," the company said.

The Norwegian Dawn following pressure from trave! agents will now be deployed year-round from New York.

Yields were up 0.3% in 2002 for NCL group.

Star Cruises sald it Hawaii business continued to contribute strongly and it was now looking to build up a fleet flagged in the US and based in Hawaii.

"Recent legislative developments in the US have opened up additional opportunities for NCL Group to build on the strong base already established in Hawaii and it Is NCL Group's intention to develop a US Flag cruise fleet concentrated in Hawaii In parallel to its existing Bahamas flag fleet," it said.

Last year Star cut a deal to buy out the two partially-completed Project America vessels from Northrop's Ingalls shipyard in Mississippi.

Good results form its US operations helped the Malaysian-owned cruise line reported a net Income of $73.1m for 2002 compared to a loss of $8.1m a year earlier. In 2001 the cruise line was adversely affected by the September 11 terror attacks in the US.

Revenue increased by 13.9% from $1.38bn to $1.57bn.

[Close Window]

Star Cruises Limited

(Continued into Bermuda with limited liability)

ANNOUNCEMENT
RESULTS FOR THE THREE MONTHS AND THE YEAR ENDED 31 DECEMBER 2002

The Board of Directors (the "Directors") of Star Cruises Limited (the "Company") announces the unaudited consolidated results and the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and the year ended 3 1 December 2002, together with the comparative figures for the previous period / year as follows

	Note	Three months ended 3 1 December		Year ended 3 1 December	
		2002 US$'000	2001 US$'000	2002 US$'000	2001 US$'000
		unaudtted	unaudtted	audited	audited
Turnover	1	368,417	339,119	1,573,588	1,381,566
Operating expenses (excluding depreciation and amorttsatton)		(255,587)	(240,648)	(991,260)	(877,096)
Selling, general and administrative expenses (excludmg depreciation)		(64,673)	(79,773)	(245,320)	(257,082)
Depreciation and amorttsatton		(46,012)	(42,130)	(176,166)	(154,417)
Impairment of fixed assets			(8,430)		(8,430)
		(366,272)	(370,981)	(1,412,746)	(1,297,025)
Operating profit / (loss)	1	2,145	(3 1,862)	160,842	84,541
Interest income		1,061	508	3,325	6,821
Financial costs		(25,083)	(26,287)	(99,326)	(118,492)
Other non-operating income / (expenses), net		(5,455)	4,624	(12,435)	12,846
		(29,477)	(21,155)	(108,436)	(98,825)
Profit / (loss) before taxation		(27,332)	(53,017)	52,406	(14,284)
Taxation	2	(340)	(952)	(1,475)	(1,759)
Net profit / (loss) for the penod / year		(27,672)	(53,969)	50,931	(16,043)
Basic earnings / (loss) per share (US cents)	3	(0 60)	(1 26)	1.15	(037)
Fully diluted eammgs per share (US cents)	3	N/A	N/A	1.15	N/A
<u>Unaudited operating data</u>					
Passenger Cruise Days		2,125,833	1,778,127	8,374,271	7,133,949
Capacity Days		2,218,222	2,034,822	8,542,019	7,523,849
Occupancy as a percentage of capacity days		96%	87%	98%	95%

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NOTES TO THE ACCOUNTS

1 Turnover and Operating Profit / (Loss)

The Group is principally engaged in the operation of passenger cruise ships.

Turnover consists of revenues earned from cruise and cruise related activities and charter hire. Cruise and cruise related revenue comprises sales of passenger tickets, including, in some cases, an transportation to and from the cruise ship, and revenue from onboard services and other related services, including gammg, food and beverage Charter hire revenue includes the lease operation of a catamaran to a thud party customer

The amounts of each significant category of revenue recognised by the Group were as follows:

	TURNOVER			
	Three months ended 31 December		Year ended 31 December	
	2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Cruise and cruise related activities	368,417	337,656	1,570,507	1,369,051
Charter hire		1,463	3,081	12,515
	368,417	339,119	1,573,588	1,381,566

	OPERATING PROFIT / (LOSS)			
	Three months ended 31 December		Year ended 31 December	
	2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Cruise and cruise related activities	2,991	(36,796)	160,510	73,406
Charter hire	(846)	4,934	332	11,135
	2,145	(3 1,862)	160,842	84,541

1. Turnover and Operatmg Profit / (Loss) (Continued)

The Group's turnover and operating profit ın ıts prıncıpal markets of North Amerıca and Asıa Pacıfic are analysed as follows.

	TURNOVER			
	Three months ended 3 1 December		Year ended 3 1 December	
	2002 US$'000 unaudıted	2001 US$'000 unaudited	2002 US$'000 audıted	2001 US$'000 audıted
Asıa Pacıfic	114,488	138,991	466,696	511,669
North America (note)	229,923	182,705	1,015,474	765,585
Others	24,006	17,423	91,418	104,312
	368,417	339,119	1,573,588	1,381,566

	OPERATING PROFIT / (LOSS)			
	Three months ended 31 December		Year ended 31 December	
	2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Asia Pacific	16,648	14,686	93,868	94,171
North America (note)	(11,549)	(39,932)	69,738	(2,425)
Others	(676)	(4,549)	6,351	1,065
	4,423	(29,795)	169,957	92,811
Amortisatıon of goodwill	(2,278)	(2,067)	(9,115)	(8,270)
	2,145	(31,862)	160,842	84,541

Note: Substantıally, all this turnover and operatmg profit/(loss) arises ın the United States of America

2. Taxation

	Three months ended 3 1 December		Year ended 3 1 December	
	2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Overseas taxation				
- Current taxation	340	949	1,475	1,756
- Deferred taxation		3		3
	340	952	1,475	1,759

3 Eammgs per share

Eammgs per share has been calculated as follows.

	Note	Three months ended 3 1 December		Year ended 3 1 December	
		2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
BASIC					
Net profit / (loss)		(27,672)	(53,969)	50,931	(16,043)
Average outstandmg ordinary shares in thousands after adjusting for the effect of nghts issue		4,620,320	4,289,723	4,433,371	4,287,655
Basic earnings / (loss) per share in US cents	(i)	(0.60)	(1.26)	1 15	(0 37)
FULLY DILUTED					
Net profit / (loss)		(27,672)	(53,696)	50,931	(16,043)
Average outstanding ordinary shares in thousands after adjusting for the effect of rights issue		4,620,320	4,289,723	4,433,371	4,287,655
Effect of dilutive ordinary share in thousands after adjusting for the effect of nghts issue		4,664	7,324	11,626	17,163
Average number of ordinary shares outstandmg in thousands after adjusting for the effect of nghts issue and assuming dilution		4,624,984	4,297,047	4,444,997	4,304,818
Fully diluted earnings per share in US cents	(i) & (ii)	N/A	N/A	1.15	N/A

Notes:

(i) In December 2002, the Company issued 607,420,455 rights shares of US$O.lO each in the proportion of 7 rights shares for every 50 shares held. Accordmgly, the Group retroactively restated its earnings per share for the three months and the year ended 3 1 December 200 1 to reflect the effect of rights issue.

(ii) Diluted loss per share for the three months ended 31 December 2002 and 2001 and the year ended 3 1 December 2001 are not shown, as the diluted loss per share is less than the basic loss per share.

FINAL DIVIDEND

The Directors do not recommend the declaration of any final dividend in respect of the year ended 31 December 2002 (200 I : Nil).

CONSOLIDATED STATEMENTS OF INCOME

WALT DISNEY COMPANY AND SUBSIDIARIES
FINANCIAL DATA
2002 ANNUAL REPORT
AS OF 09/30/02

(In millions, except per share data)	Year Ended September 30, 2002	2001	2000
Revenues	$ 25.329	$ 25.172	$ 25,325
Costs and expenses	(22.924)	(21,573)	(21,567)
Amortization of intangible assets	(21)	(767)	(1,233)
Gain on sale of businesses	34	22	489
Net interest expense and other	(453)	(417)	(497)
Equity in the income of investees	225	300	208
Restructuring and impairment charges	—	(1,454)	(92)
Income before income taxes, minority interests and the cumulative effect of accounting changes	2.190	1,283	2,633
Income taxes	(853)	(1,059)	(1,606)
Minority interests	(101)	(104)	(107)
Income before the cumulative effect of accounting changes	1,236	120	920
Cumulative effect of accounting changes			
Film accounting	—	(228)	—
Derivative accounting	—	(50)	—
Net income (loss)	$ 1.236	$ (158)	$ 930
Earnings (loss) attributed to Disney common stock[1]	$ 1,236	$ (41)	$ 1,196
Earnings per share before the cumulative effect of accounting changes attributed to Disney common stock:[1]			
Diluted	$ 0.60	$ 011	$ 0 57
Basic	$ 0.61	$ 0 11	$ 0 58
Cumulative effect of accounting changes per Disney share			
Film accounting	$ —	$ (0 11)	$ —
Derivative accounting	—	(0 02)	—
	$ —	$ (0.13)	$ —
Earnings (loss) per share attributed to Disney common stock[1]			
Diluted	$ 0.60	$ (0 02)	$ 0 57
Basic	$ 0.61	$ (0 02)	$ 0 58
Average number of common and common equivalent shares outstanding for the Disney common stock:			
Diluted	2.044	2.100	2.103
Basic	2.040	2,085	3.074
Loss attributed to Internet Group common stock	n/a	$ (117)	$ (276)
Loss per share attributed to Internet Group common stock (basic and diluted)	n/a	$ (3.72)	$ (6 18)
Average number of common and common equivalent shares outstanding for the Internet Group common stock	n/a	43	45

[1] Including Disney's retained interest in the Internet Group. Disney's retained interest in the Internet Group reflects 100% of Internet Group losses through November 17, 1999, approximately 72% for the period from November 18, 1999 through January 28, 2001 (the last date prior to the announcement of the conversion of the Internet Group common stock) and 100% thereafter

See Notes to Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)	September 30, 2002	2001
Assets		
Current Assets		
Cash and cash equivalents	$ 1,239	$ 618
Receivables	4,049	3.343
Inventories	697	671
Television costs	661	769
Deferred income taxes	624	622
Other assets	579	582
Total current assets	7,849	6.605
Film and television costs	5,959	5.641
Investments	1,810	2,112
Parks, resorts and other property, at cost		
Attractions buildings and equipment	18.917	18,846
Accumulated depreciation	(8.133)	(7,662)
	10,784	I i.184
Projects in progress	1,148	911
Land	848	XII
	12.780	12,906
Intangible assets, net	2,776	2,736
Goodwill	17,083	13.106
Other assets	1,788	1,704
	$50.045	$43,810
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and other accrued liabilities	$ 5,173	$ 4.104
Current portion of borrowings	1,663	829
Unearned royalties and other advances	9x3	787
Total current liabilities	7.819	6,020
Borrowings	12,467	8,940
Deferred income taxes	2,597	2,729
Other long-term liabilities	3,283	3.067
Minority interests	434	382
Commitments and contingencies (Note 14)		
Stockholders' Equity		
Preferred stock, $.01 par value		
Authorized – 100 million shares, Issued – none		
Common stock		
Common stock – Disney, $.01 par value		
Authorized – 3.6 billion shares, Issued – 2.1 billion shares	12,107	12.096
Common stock – Internet Group, $.01 par value		
Authorized – 1.0 billion shares, Issued – none		
Retained earnings	12,979	12,171
Accumulated other comprehensive (loss) income	(85)	I0
	25,001	34,277
Treasury stock, at cost, 81.4 million Disney shares	(1.395)	(1,395)
Shares held by TWDC Stock Compensation Fund II, at cost		
Disney – 6.6 million and 8.6 million shares	(161)	(210)
	23.445	22,672
	$50.045	$43.810

See Notes to Consolidated Financial Statements

RCL0082B

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions, except per share data)	Shares DIS	Shares DIG	Common Stock DIS	Common Stock DIG	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	TWDC Stock Compensation Fund DIS	TWDC Stock Compensation Fund DIG	Stockholders Equity Total
Balance at September 30, 1999	2,064	—	$ 9,324	$ --	$12,281	$(25)	$ (605)	$ --	$ --	$20,975
Common stock issued	—	44	—	2,149	—	—	—	—	—	2,149
Exercise of stock options, net	**37**	**2**	596	32	—	—	(84)	115		659
Common stock repurchased	(5)	(1)						(155)	(11)	(166)
Dividends ($0.21 per Disney share)	--		—		(434)	--	—	—	—	(434)
Other comprehensive (loss) (net of tax benefit of $30 million)	—	—	—	—	—	(3)	—	—	—	(3)
Net income	--			..	920					920
Balance at September 30, 2000	2,056	45	9,920	2,181	12,767	(28)	(689)	(40)	(11)	24,100
Common stock issued (cancellation)		(1)		(22)			—	—		(22)
Exercise of stock options, net	8	--	17	--	--	..	--	208	---	225
Common stock repurchased	(64)	(2)	—	--	—	--	(706)	(357)	(10)	(1,073)
Conversion of DIG shares	8	(42)	2,159	(2,159)	—	—	—	(21)	21	
Dividends ($0.21 per Disney share)	—	—	—	—	(438)	—	—	—	—	(438)
Other comprehensive income (net of tax expense of $23 million)	—	--	—	—	—	38	—	—	—	38
Net loss	—	—	—	—	(158)	—	—	—	—	(158)
Balance at September 30, 2001	2,038	—	12,096	—	13,171	10	(1,395)	(210)	—	22,672
Exercise of stock options, net	3		11	—	—	—	—	49	—	60
Dividends ($0.21 per Disney share)	—	—	—	—	(428)	—	—	—	—	(428)
Other comprehensive (loss) (net of tax benefit of $56 million)	—	—	—	--	—	(95)	—	—	—	(95)
Net income	—	—	—	—	1,236	—		—	—	1,236
Balance at September 30, 2002	2,041	—	$12,107	$ —	$12,979	$(85)	$(1,395)	$(161)	$ —	$23,445

Comprehensive income (loss) is as follows:

	2002	2001	2000
Net income (loss)	**$1,236**	$(158)	$920
Cumulative effect of adoption of SFAS 133, net of tax	—	60	—
Market value adjustments for investments and hedges, net of tax	**(101)**	(18)	15
Foreign currency translation and other, net of tax	**6**	(4)	(18)
Comprehensive income (loss)	**$1,141**	$(120)	$917

See Notes to Consolidated Financial Statements

RCL0082C

RCL's Analysis of FMC Passenger Complaints, 1997-2002

The NPRM states that "In recent years . . . the Commission has been receiving several hundred [passenger] complaints per year," and "an [unspecified, but stated] ever increasing number of inquiries from members of Congress about problems experienced by their constituents" (67 Fed. Reg. at 66353). In order to investigate and better understand these statements, RCL obtained (through the Freedom of Information Act ("FOIA")), and reviewed, the Commission's Case Log entries for all passenger complaints and Congressional inquiries for the six years from January 1, 1997 through December 31, 2002.

This Case Log, which is maintained by the Commission's Office of Informal Inquiries, records all passenger complaints received from whatever source. Each complaint is assigned a unique case number, and is coded by complainant type,[1/] case type[2/] and respondent type. Each entry also includes a brief generic description as to the nature of the complaint, as well as the date the complaint was tiled (i.e., entered into the Case Log, not necessarily received by the FMC), and the names of the complainant(s) and the respondent cruise line.

<u>Attachment ("Attmt") 1</u> sets forth RCL's analysis of the total complaints filed, from all sources (including the Congressional complaints).[3/] Column 2 sets forth the total number of complaints filed by year. This analysis shows that total complaints rose gradually from 52 complaints in 1997 to 128 complaints in 1999. The number then jumped sharply to 683 complaints in 2000. Since then, the number ***declined*** by ***more than*** 50% to 341 complaints in 2001, and then ***declined*** a ***further*** 24% to 259 complaints in 2002.

In order to better understand these numbers, and the reasons for the upwards jump in 2000 and the consecutive substantial declines since then, RCL first identified and segregated the nonperformance complaints relating to failed cruise lines. This enabled RCL to distinguish cruise line failure nonperformance complaints from other passenger complaints. This segregation is set forth in the 3rd and 4th columns of <u>Attmt 1</u>. The 5th column breaks down the failed cruise line nonperformance complaints by specific cruise line for each year, and overall for the six years of 1997-2002.

1/ The relevant identified Case Log "Complainant Type" Codes provided by the FMC Staff are (A) individuals, (B) business, other than travel agencies, (D) Member of Congress, (E) trade or non-profit organization, and (I) travel agency and other travel business.

2/ The identified relevant Case Log "Case Type" Codes provided by the FMC Staff are (1) fare dispute, (4) surcharge, (5) service issues, (6) damage or loss, including luggage, (7) refund or other monetary recovery, (8) alleged statutory violations, including discrimination, and (9) all other complaints.

3/ These totals include a handful of complaints that were provided in response to a FOIA request for Congressional complaints, that, for some reason or other, were <u>not</u> included in the provided FMC Case Log. The 6th column of <u>Attmt 1</u> separately breaks out the Congressional complaints.

Analysis of the segregated numbers indicates that ***the changes in overall passenger complaints are due largely to complaints involving failed cruise lines.*** Specifically, in 1999 there were no failed cruise line nonperformance complaints (Attmt 1, Col. 4). However, with the failures of Premier, Cape Canaveral and Commodore in September 2000, the number of failed cruise lines nonperformance complaints jumped sharply to 498 in 2000 (id.). Of these 498 complaints, 484 related to Premier, 12 to Commodore and 2 to Cape Canaveral (id., Col. 5). The number of failed cruise line nonperformance complaints dropped by almost 300 complaints (60%) to 199 complaints in 2001, and then dropped another 13 1 (65.8%) to only 68 complaints in 2002. These successive declines occurred notwithstanding the failure of three additional lines in CY01 (AMCV, Renaissance and Great Lakes).[4/]

Interestingly, the vast majority of the failed cruise line nonperformance complaints were filed within mere weeks of the respective cruise line's failure. For example, of the 484 complaints regarding Premier, 279 complaints (57.6%) were filed ***within the very first week,*** and ***452 (93.4%)*** were filed ***within the first*** 30 ***days.*** Similar, albeit somewhat less marked numbers, were observed with respect to Commodore, and later AMCV.[5/] This strongly suggests some coordination and misunderstanding as to where passengers should file claims in connection with such failures – i.e., that passengers thought (or were advised by someone) that they should contact the FMC in the first instance, or were looking for direction as to where to go.[6/]

The fact that the majority of failed cruise line complaints were filed so early on in the process suggests two important points with respect to the present rulemaking:

> First, the filing of such complaints at the FMC does ***not*** indicate serious dissatisfaction with the existing claims resolution process requiring Commission action. Indeed, none of these early complaining passengers had even filed claims – either under the FMC bond, or with the Bankruptcy Court – at the time they submitted their FMC complaints. There, of course, have been a small number of complaints about the length of time to process such claims. However, the vast

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4/ Attmt 1, Cols 4 & 5. The latter two of these three lines (i.e., Renaissance and Great Lakes Cruises) did not participate in the Commission's program, due to the fact that all of their departures were from foreign ports, and thus were outside the Commission's jurisdiction. Nevertheless, the Commission did receive 18 complaints regarding Renaissance, and 3 relating to Great Lakes, in 2001-02, which are included in the reported total complaints.

5/ Of the total 15 1 complaints received regarding Commodore, 58 (3 8.4%) were received in the first 30 days, and 107 (70.9%) within the first 60 days. Similarly, of the 32 complaints received regarding AMCV, 18 (56.3%) were received within the first 30 days, and 2 1 (65.6%) within the first 60 days.

6/ Presumably the complaining passengers had not seen the Commission's press releases advising passengers where to file claims (see, e.g., FMC Press Release Nos. 00-13 & 00-15, dated 9/15/00 & 9/22/00 respectively (Premier), Nos. 01-01 & 01-04, dated 1/3/01 & 4/2/01 respectively (Commodore), and No. 01-l 1, dated 10/19/01 (AMCV).

majority of passengers have been understanding and patient with the system. And, of course, ultimately they all have received the monies due to them.[7]

Second, the rulemaking's proposal to require mandatory arbitration for claims not resolved within 60 days would not have helped any of these early complainants. This is because they neither had invoked nor complied with the established claims processes (which would have to be an initial criterion), nor had they waited the threshold 60 days. Moreover, the proposal would not address or resolve the factors cited by the Commission as having contributed to delays in paying claims (see Footnote 7 above).

When the failed cruise line nonperformance complaints (Attmt 1, Cols 4 & 5) are backed-out of the total complaints (Attmt 1, Col. 2), the number of "other" complaints (Attmt 1, Col. 4) tells a very different story. Thus, the other complaints increased by about 40 per year from 1997 to 1999, jumped by 57 to 185 in 2000, and then ***declined*** sharply to 142 in 2001 before rising again to 191 in 2002. ***The number of complaints (other than failed cruise line nonperformance) for the past three years (2000-02) ranged from 142 to 191 per year, and averaged 172.7 complaints.***[8]

In order to better understand these numbers, RCL looked at the stated nature of the various complaints to determine if there were any significant common denominators. This review revealed that three unique events accounted for 103 of the total 535 complaints over the three-year-period. These events were

(1) Complaints about a changed cruise itinerary (Eastern to Western Caribbean) by one of Carnival's Millenium (i.e., welcoming year 2000) cruises due to a mechanical problem encountered after departing port (21 complaints in CY00);[9]

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[7] In responding to several Congressional inquiries regarding delayed pay-outs in connection with the 1995 Regency bankruptcy, the Commission noted that "much of the delay in indemnifying passengers is attributable to the 'Automatic Stay' issued pursuant to Sec. 362(a) of the Bankruptcy Code . . . . Other contributing factors include the procedural safeguards inherent in the bankruptcy process, together with the need to resolve the many legal questions that have been raised by the Bankruptcy Court and the bank holding the counter security supporting Regency's Section 3, Pub. L. 89-777 guaranty." The Proposed Rule does not address, and would not resolve, any of these cited delay factors.

[8] This number likely includes other sailings that are outside the Commission's jurisdiction, but relate to cruise lines with both U.S. and foreign port departures. For example, one of the comments filed in the present rulemaking proceeding relates to efforts to recover the value of a cash deposit in connection with an uncovered Commodore Cruise Line departure out of Aruba. See comments of Kirk R. Bryson, dated January 3, 2002.

[9] Significantly, the passengers all got their cruise. It just did not go where they had expected to go (the vessel was still able to make headway, but could not go fast enough to accomplish the longer Eastern Caribbean route; thus the switch to the shorter Western Caribbean route). We understand that Carnival

(2) A number of passengers who got "bumped" from one or more Norwegian Cruise Line cruises in the first part of 2000 (26 complaints in CYOO); and

(3) 9/1 1 issues (30 complaints in CY01, and 26 in CY02).

If these three unique events are backed out, the number of general "other" complaints drops to 138 in 2000, 112 in 2001 and 165 in 2002 – not much different from the 128 in CY99 when adjusted for the substantial increase in the number of passengers over these years. These numbers certainly are low compared to the approximately 7.6 million North American market passengers last year.[10] Attachment 2 depicts this in multi-color graph format. This graph shows that the base number of other complaints has remained in a gradual uptrend, generally consistent with the overall increase in passenger volume. However, this reality has been obscured and distorted by the cruise line failure complaints, and, to a much lesser degree, by the three unique incidents discussed above.

Attachment 3 sets forth the number of U.S. cruise passengers for each year from 1997 to 2002, and compares these numbers with the nonperformance and other general complaints for this time period. This comparison shows that the number of all complaints per 100,000 passengers (including cruise line failures) ***decreased by 65.7%*** from a peak of 9.9 in 2000, to 3.4 last year (Attmt 3, Col. 6). If one excludes the failed cruise line nonperformance complaints, the figure drops to between 2.35 and 2.68 complaints per 100,000 passengers during the past three years (see Attmt 3, Col. 10).

While no passenger complaints are good, and the industry certainly wants to resolve complaints quickly and satisfactorily to the customer, these numbers do not evidence a serious problem warranting Commission intervention and action, and certainly do not justify either the elimination of the UPR ceiling or the rulemaking's mandatory ADR proposal (with respect to either true nonperformance complaints or other passenger complaints).

Analysis of Congressional Inquiries

RCL also examined the documents provided by the FMC relating to Congressional inquiries during the six years from January 1, 1997 through December 3 1, 2002. These materials consisted of (i) a special computer run of the Commission's Case Log limited to complaints received from members of Congress, (ii) the Commission's written responses to each of the Congressional inquiries, and (iii) certain related documents. The purposes of this review were (1) to ascertain the magnitude of the reported problem and any trends therein, and (2) to gain a more complete picture of the details behind, and nature of, the entire universe of passenger complaints by reviewing this smaller pool of complaints in depth.

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explained the circumstances to the passengers, gave them a chance to get off at the next port of call, and offered credits to the vast majority who elected to remain on board.

[10] See "CLIA Press Release, "CLIA Lines Host 8.66 Million Cruise Vacationers in 2002" (3/4/03) (RCL Exh. 9.C).

The Case Log run listed 12 1 complaint inquiries from members of Congress. In reviewing the Commission response letters, RCL identified an additional 10 inquiries that were not listed in the Case Log. Combining these numbers, RCL examined a total of 13 1 Congressional inquiries. RCL determined that 13 of these inquiries represented duplicate inquiries (i.e., the customer complained to both their Representative and one or more Senators, who each, in turn, forwarded the complaint on to the FMC). RCL considered these multiple submissions as a single inquiry for analysis purposes. Conversely, six of the letters were found to detail two or three separate problems. For analysis purposes each of these separate problems was treated as a separate inquiry, so as to enable the analysis to depict more accurately the varied subjects of the passenger complaints that were the subject of the Congressional inquiries.[11/]

Attachment 4 sets forth the results of this first analysis. Using the foregoing methodology yielded ***a total of 126 unique complaints for the six-year period – an average of 21 complaints per year.*** Of these complaints, 19 were made in 1997, 10 in 1998, 17 in 1999, and 30 in 2000. The upward trend in the number of complaints appears to have peaked in 2000, with only 24 complaints received in 2001 and 26 in 2002.[12/]

This analysis yields two important points with respect to the NPRM statements regarding the number and trend of Congressional complaint inquiries:

> First, the total number of Congressional inquiries – which was not set forth or referenced in the NPRM – is quite small, both on an annual and a total basis for the last six years. This is particularly so in comparison to the some 7.0M annual cruise passengers.
>
> Second, while there has been an increase in the number of Congressional inquiries over the past six years -- an average of 26.7 for the past three years vs. 15.3 for the prior years -- the increase is not remarkable, given the tumultuous events of the past three years, nor has there been a consistent or steady trend (given the declines of the past two years from the peak in CYOO).

The number of Congressional inquiries thus seems to provide little basis or justification either to eliminate the ceiling or to impose a new, mandatory ADR process.

RCL also examined the bases of each of the Congressional complaint inquiries. This analysis revealed several additional points of interest:

11/ Because of this methodology, the numbers in the Attmt 4 analysis are different from, and do not precisely match, the numbers in Attmt 1, Col. 6.

12/ In order to gain a more accurate picture of when the complaints were lodged, each complaint was classified using the date the member of Congress sent the complaint to the FMC. When such information was not available, the "Filed Date" listed in the Case Log was used.

- Only about 10% of the Congressional inquiries related to cruise nonperformance – an average of only 2 inquiries per year, suggesting that this issue – the principal focus of Section 3 and the Commission's jurisdiction with respect to cruise lines – is not a significant issue;
- The subjects of the other Congressional inquiries were varied, with no particular category dominating; as depicted in the accompanying Attmt 5 pie chart, the principal complaint categories were:

Other passenger cancellations and refund issues	-	16%
Post-911 1 passenger cancellations		15%
Injuries, illnesses, medical care, safety and sanitation	-	14%
Service issues, including crime and ADA compliance	-	13%
Itinerary changes		13%
Billing, pricing, fines and surcharges		13%
Unspecified or miscellaneous reasons		6%

- The Commission expressly stated in its response letters to the respective members of Congress that virtually all of other than nonperformance issues were outside the Commission's jurisdiction.

In conclusion, and as with the broader universe of passenger complaints discussed above, there is nothing in the Congressional inquiries data that suggests a problem warranting or justifying the radical policy departures and new steps proposed in the subject rulemaking.

Attmts (5):

Attmt 1 – Chart Summarizing FMC Passenger Complaints, 1997-2002

Attmt 2 – Graph Chart Depicting FMC Passenger Complaints, 1997-2002

Attmt 3 – Chart, Passengers Per Complaint & Per 100,000 Passengers, 1997-2002

Attmt 4 – Chart Summarizing Congressional Inquiries, 1997-2002

Attmt 5 – Chart, Breaking-Out Congressional Inquiry Subjects, 1997-2002

#

Complaints in FMC Case Log

January 1997 - December 2002

Year	Total Complaints	Complaints Other Than Nonperformance	Nonperformance Complaints	Cruise Line	Congressional
1997	52	48	4	Regency - 4	19 (2 re Nonperf.)
1998	88	85	3	Regency - 3	10 (1 re Nonperf.)
1999	*128*	*128*	*0*		*17*
2000	*683*	*ii35*	498	Cape Canaveral - 2 Commodore - 12 Premier - 484	30 (2 re Nonperf.)
2001	*341*	*142*	*199*	AMCV - 20 Cape Canaveral - 2 Commodore - 123 Great Lakes - 3 Premier - 37 Regency - 1 Renaissance - 13	*24* (2 re Nonperf.)
2002	*259*	*191*	*68*	AMCV-12 Commodore - 36 Premier - 14 Regency - 1 Renaissance - 5	*26* (5 re Nonperf.)
Total 1997-2002	***1551***	*779*	*772*	***AMCV - 32*** **Cape Canaveral - 4** ***Commodore - 151*** ***Great Lakes - 3*** ***Premier - 521*** ***Regency - 3*** ***Renaissance - 18***	***126 (12 re Nonperf.)***

Events of note:	10/29/1995	Regency Cruises - Cessation of Operations
	1/3/2000	Problems with Carnival Millennium Cruise (21 in 2000)
	3/1/2000	Large number of NCL passengers 'bumped' from cruises (26 in 2000)
	9/5/2000	Cape Canaveral Cruise Lines - Cessation of Operations
	9/14/2000	Premier Cruise Lines - Cessation of Operations
	12/27/2000	Commodore Holding Co. filed for bankruptcy
	2001	Great Lakes Cruises - Cessation of Operations (Not in FMC program, Foreign departures only)
	9/11/2001	Attack on America (30 in 2001, 26 in 2002)
	9/25/2001	Renaissance Cruises filed for bankruptcy
	10/19/2001	American Classic Voyages filed for bankruptcy
	12/1/2002	Virus scare

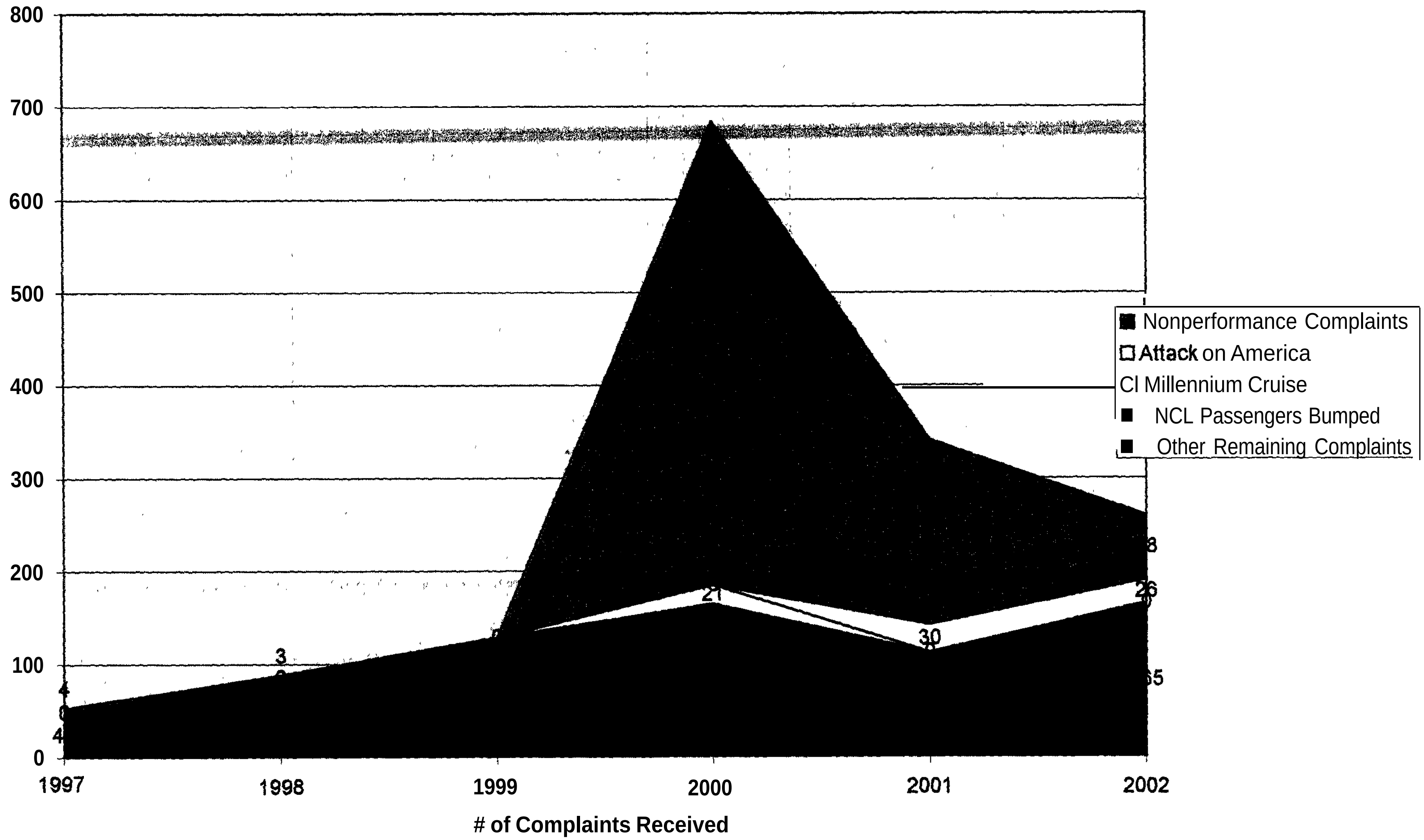
Attachment 1

Royal Caribbean/FMC Performance Bond
(38862/34897)

208273511

RCL0089

Complaints in FMC Case Log (Jan. 1997 - Dec. 2002)



Attachment 2

2082735

RCL0089A

Royal Caribbean/FMC Performance Bond
(38862134897)

Passengers per Complaint and Complaints per 100,000 Passengers

Year	Total Complaints	Complaints Other Than Nonperformance	Nonperformance Complaints	Total U.S. Cruise Passengers	Complaints per 100,000 Passengers	Passengers per Complaint	Nonperformance Complaints per 100,000 Passengers	Passengers per Nonperformance Complaint	Other Complaints per 100,000 Passengers	Passengers per Other Complaint
1997	52	48	4	5,000,000	1.04	96,154	0.08	1,250,000	0.96	104.167
1998	88	85	3	5,400,000	1.63	61,364	006	1,800,000	1.57	63,529
1999	128	128	0	5,900,000	2.17	46,094	0.00	N/A	2.17	46,094
2000	683	185	498	6,900,000	9.90	10,102	7.22	38,547	2.35	37,297
2001	341	162	179	6,900,000	4.94	20,235	2 59			42,593
2002	259	191	68	7,600,000	3.41	29,344	0 89	111,765	2.51	39,791
Total 1997-2002	1551	799	752	*37,700,000*	4.71	24,307	1.99	*50,133*	*2.12*	*47,184*

RCL000089B

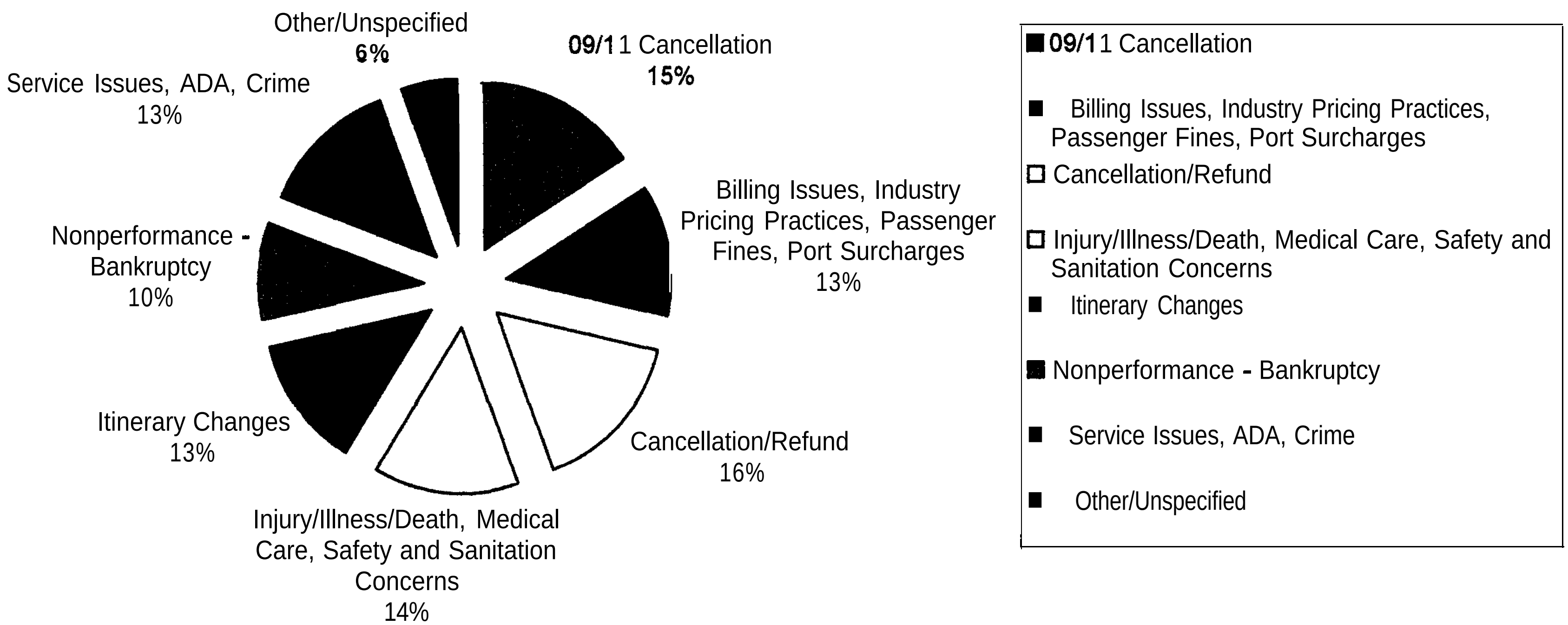
Attachment 3

Royal Caribbean/FMC Performance Bond
(38862134897)

Congressional Complaints

	1997	1998	1999	2000	2001	2002	Total
09/11 Cancellation	N/A	N/A	N/A	N/A	9	11	20
ADA	1	0	1	1	0	1	4
Billing Issues	3	0	2	1	1	0	7
Cancellation/Refund	0	0	5	5	7	3	20
Crime	1	0	0	1	0	1	3
Industry Pricing Practices	0	2	0	0	0	0	2
Injury/Illness/Death	1	2	0	0	2	0	5
Itinerary Changes	0	1	0	13	1	1	16
Medical Care	1	0	1	0	0	0	2
Nonperformance - Bankruptcy	2	1	0	2	2	5	12
Passenger Fine	0	0	1	0	0	1	2
Port Surcharges	3	1	1	0	0	0	5
Safety and Sanitation Concerns	2	0	4	2	1	2	11
Service Issues	3	3	1	2	1	0	10
Other/Unspecified	2	0	1	3	0	1	7
Total Unique Complaints	*19*	*10*	*17*	*30*	*24*	*26*	*126*

Total Unique Congressional Complaints



FMC CORPORATE PV FLEET LIST
(02/06/03)

Corporate PV Fleet List

Parent	Operator / UPR Vessel	Trade Name	Berths	Perf.	No.	Dntc	Exp. Date	Cm.	No.
	AMERICAN CANADIAN CARIBBEAN LINE, INC.	***AMERICAN CANADIAN CARIBBEAN LINE***							
	GRANDE CARIBE		100	SB	P-512	4/23/1997		I	c-147
	GRANDE MARINER		100	SB	P-547	3/25/1998		I	c-153
	NIAGARA PRINCE		84	SB	P-459	9/19/1994		I	
	AUSTAL SHIP SALES PTY LTD	***AUSTAL SHIP SALES***							
	WESTPAC EXPRESS		970					G	C-167
	COMPAGNIE DES ILES DUPONANT	***GREAT LAKES CRUISE COMPANY***							
	LE LEVANT		90	G	P-556	12/4/1998		G	c-155
	CORPORACION FERRIES DEL CARIBE, INC	***FERRIES DEL CARIBE***							
	MILLENIUM EXPRESS		728	SB	P-770			G	C-166
	CRYSTAL CRUISES, INC	***CRYSTAL CRUISES***							
	CRYSTAL HARMONY		1110	G	P-357	3/10/1989		G	c-135
	CRYSTAL SERENITY		1100	G	P-819	512412002			
	CRYSTAL SYMPHONY		994	G	P-461	12/29/1994		G	c-143
	DISCOVERY SUN PARTNERSHIP	***DISCOVERY CRUISE LINE***							
	DISCOVERY SUN		280	SB	P-743	4/17/2001		G	C-169
	IMPERIAL MAJESTY CRUISE LINE L L.C.	***IMPERIAL MAJESTY CRUISE LINE***							
	OCEANBREEZE		980	I	P-672	4/14/2000		G	C-160

Parent	Operator / UPR Vessel	Trade Name	Berths	Perf.	No.	Date	Exp. Date	Cas.	No.
	JAPAN CRUIS. LINE, INC	**VENUS CRUISES**							
	ORIENT VENUS		606	G	P-616	11/1/1999		G	C-156
	PACIFIC VENUS		720	G	P-61 5	111111999		G	C-156
	LINDBLA D EXPEDITIONS, INC	**LINDBLAD EXPEDITIONS**							
	POLARIS		80	E	P-701	3/28/2002		G	c-152
	SEA BIRD		70	E	P-702	3/20/2002		G	c-152
	SEA LION		70	E	P-703	3/20/2002		G	c-157
	MA GIC CR UISE LINE SER VICES CO	**MAGIC CRUISE LINE**							
	MAGIC I		850	G	P-836	11/4/2002			
	MEDITERRANEAN SHIPPING CRUISES SPA	**MEDITERRANEAN SHIPPINGCRUISES**							
	MELODY		1769	G	P-575	11/19/1997		G	c-149
	MITSUI OSK PASSENGER LINE, LTD	**MITSUI OSK PASSENGER LINE**							
	FUJI MARU		603	G	P-814	412312002		G	c-170
	NIPPON MARU		607	G	P-415	3/30/1 992		G	c-140
	REGAL CR UISES, INC	**REGAL CRUISES**							
	REGAL EMPRESS		1160	SB	P-435	9/1 811996		G	c-170
	RIVERBARGE EXCURSION LINES, INC	**RIVERBARGE EXCURSION LINES**							
	RIVER EXPLORER		200	E	P-517	91811997			
	SCO TIA PRINCE CRUISES L TD.	**SCOTIA PRINCE CRUISES**							
	SCOTIA PRINCE		1054	G	P-81 1	5/9/2002		G	c-170
	SIL VERSEA CR UISES	**SILVERSEACRUISES**							

Parent	Operator	UPR	Vessel	Berths	Per/:	Trade Name No.	Date	Exp.	Dnfe	Cas.	No.
			SILVER CLOUD	331	G	P-81 7	7/9/2002		G		c-170
			SILVER SHADOW	419	G	P-724	9/13/2000		G		C-162
			SILVER WHISPER	419	G	P-757	4/4/2001		G		C-166
	SOCIETY EXPEDITIONS, INC.					SOCIETY EXPEDITIONS					
			WORLD DISCOVERER	169	E	P-818	6/4/2002		G		c-170
	WEST TRAVEL, INC					CRUISE WEST					
			SPIRIT OF 98	96	E	P-433	1/8/1993		G		C-142
			SPIRIT OF ALASKA	82	E	P-383	5/7/1993		G		C-167
			SPIRIT OF COLUMBIA	80	E	P-445	7/29/1994		G		c-144
			SPIRIT OF DISCOVERY	84	E	P-406	5/7/1993		G		c-139
			SPIRIT OF ENDEAVOUR	107	E	P-498	8/9/1996		G		C-146
			SPIRIT OF GLACIER BAY	60	E	P-400	8/9/1991		G		C-136
			SPIRIT OF OCEANUS	114	E	P-778	6/6/2001		G		C-166
	WINDJAMMER BAREFOOT CRUISES LTD.					WINDJAMMER BAREFOOT CRUISES					
			LEGACY	122	SB	P-543	3/13/1998		G		c-150
	WORLD EXPLORER CRUISES, INC.					WORLD EXPLORER CRUISES					
			UNIVERSE EXPLORER	739					G		C-164
CARLSON COMPANIES, INC.											
	RADISSON SEVEN SEAS CRUISES, INC					RADISSON SEVEN SEAS CRUISES					
			PAUL GAUGUIN	320	SB	P-559	7/7/1998		G		c-147
			RADISSON DIAMOND	354	SB	P-385	2/25/1997		G		c-137
			SEVEN SEAS MARINER	700	St3	P-679	2/23/2000		G		C-165
			SEVEN SEAS NAVIGATOR	490	SB	P-591	12/8/1998		G		C-164
			SONG OF FLOWER	228					G		c-137
CARNIVAL, CORPORATION											

Parent	Operator		Trade Name					
	UPR Vessel	Berths	Perf.	No.	Date	Exp. Date	Cas.	No.
	CARNIVAL CRUISE LINES			*CARNIVAL CRUISE LINES*				
	CARNIVAL CONQUEST	3700	SB	P-742	11/6/2000		G	c-171
	CARNIVAL DESTINY	3400	SB	P-704	9/13/2000		G	C-146
	CARNIVAL GLORY	3791	SB	P-779	7/19/2001			
	CARNIVAL LEGEND	2680	SB	P-741	11/6/2000		G	c-170
	CARNIVAL MIRACLE	2667	SB	P-780	7/19/2001			
	CARNIVAL PRIDE	2680	SB	P-740	11/6/2000		G	C-169
	CARNIVAL SPIRIT	3224	SB	P-705	9/13/2000		G	C-163
	CARNIVAL TRIUMPH	3540	SB	P-706	9/13/2000		G	C-162
	CARNIVAL VALOR	3791	SB	P-781	9/19/2001			
	CARNIVAL VICTORY	3400	SB	P-707	9/13/2000		G	C-161
	CELEBRATION	1896	SB	P-279	9/13/2000		G	C-169
	ECSTASY	2594	SB	P-709	9/13/2000		G	c-134
	ELATION	2594	SB	P-710	9/13/2000		G	c-150
	FANTASY	2634	SB	P-71 1	9/13/2000		G	c-134
	FASCINATION	2630	SB	P-712	7/26/1995		G	c-139
	HOLIDAY	1800	SB	P-713	9/13/2000		G	C-127
	IMAGINATION	2630	SB	P-714	9/1 312000		G	c-140
	INSPIRATION	2630	SB	P-715	9/13/2000		G	c-143
	JUBILEE	1896	SB	P-716	9/1 312000		G	C-128
	PARADISE	2594	SB	P-71 7	9/1 312000		G	c-154
	SENSATION	2594	SB	P-718	9/1 312000		G	C-138
	COSTA CRUISES S P A			***COSTA CRUISES***				
	COSTA ALLEGRA	1086	SB	P-695	1/8/2001		G	C-160
	COSTA ATLANTICA	3241	SB	P-680	212412000		G	C-161
	COSTA CLASSICA	1766	SB	P-696	1/8/2001		G	C-160
	COSTA MARINA	1034	SB	P-697	1/8/2001		G	C-161
	COSTA MEDITERRANEA	2680	G	P-842	12/19/2002			
	COSTA ROMANTICA	1782	SB	P-699	1/8/2001		G	C-161

Parent	Operator		Trade Name						
	UPR	Vessel	Berths	Perf.	No.	Date	Exp. Date	Cas.	No.
		COSTA VICTORIA	2448	SB	P-700	11612001		G	C-161
	CUNARD LINE LTD				*CUNARD LINE*				
		CARONIA	695	SB	P-656	8/24/1999		G	C-158
		QUEEN ELIZABETH 2	2045	SB	P-579	11/12/1998		G	C-152
		QUEEN MARY 2	3090	SB	P-799	9/4/2001			
	HOLLAND AMERICA LINE, INC				*HOLLAND AMERICA LINE*				
		AMSTERDAM	1738	SB	P-843	12/23/2002		G	C-172
		MAASDAM	1627	SB	P-844	12/23/2002		G	C-172
		NOORDAM	1374	SB	P-845	12/23/2002		G	C-172
		OOSTERDAM	2388	SB	P-846	12/23/2002			
		PRINSENDAM	784	SB	P-847	12/23/2002		G	C-172
		ROTTERDAM	1667	SB	P-848	12/23/2002		G	C-172
		RYNDAM	1627	SB	P-849	12/23/2002		G	c-173
		STATENDAM	1627	SB	P-850	12/23/2002		G	C-173
		VEENDAM	1627	SB	P-851	12/23/2002		G	c-173
		VOLENDAM	1667	SB	P-852	12/23/2002		G	c-173
		WESTERDAM	2338	SB	P-856	1/10/2003			
		ZAANDAM	1667	SB	P-853	12/23/2002		G	c-173
		ZUIDERDAM	2388	SB	P-840	11/7/2002		G	c-171
	SEABOURN CRUISE LINE				*SEABOURN CRUISE LINE*				
		SEABOURN LEGEND	212	SE	P-577	9/28/1998		G	C-155
		SEABOURN PRIDE	212	SB	P-576	9/18/1998		G	C-154
		SEABOURN SPIRIT	212	SB	P-578	9/28/1998		G	c-154
	WINDSTAR SAIL CRUISES LTD				*WINDSTAR CRUISES*				
		WIND SPIRIT	150	SB	P-854	12/23/2002		G	c-173
		WIND SURF	312	SB	P-855	12/23/2002		G	c- 173

Parent	Operator					Trade Name				
		UPR	Vessel	Berths	Perf.	No.	Date	Exp. Date	Cas.	No.
CG HOLDING AS										
	CG CR UISE INVEST AS					***SEADREAM*** *YACHT* ***CLUB***				
			SEADREAM I	116	G	P-797	9/13/2001		G	C-168
			SEADREAM II	116	G	P-790	9/1312001		G	C-168
DELAWARE NORTH COMPANIES, INC.										
	DELTA QUEEN STEAMBOAT CO., INC.					*DELTA* ***QUEEN STEAMBOA*** *T CO.*				
			AMERICAN QUEEN	436	SB	P-037	10/31/2002		G	c-171
			DELTA QUEEN	174	SB	P-838	1013 112002		G	c-171
			MISSISSIPPI QUEEN	416	SB	P-839	1013 112002		G	c-171
GOLDRELT, INC.										
	GLACIER BA Y PARK CONCESSION, INC					*GLACIER BA Y* ***CRUISELINE***				
			WILDERNESS ADVENTURER	88	E	P-830	9/6/2002			
			WILDERNESS DISCOVERER	90	E	P-831	91612002			
HAI'AG-LLOYD AG										
	HAPAG-LLOYD KRETJZFAHRTEN GMBH					*HAPAG-LLOYD CRUISES*				
			BREMEN	164	G	P-755	311512001		G	C-166
			C COLUMBUS	410	G	P-640	11/16/1999		G	C-157
			EUROPA	408	G	P-650	11/16/1999		G	c-157
			HANSEATIC	198	G	P-649	11/16/1999		G	c-157
INTRAV, INC.										
	NEW WORLD SHIP MANAGEMENT COMPANY LLC					*CLIPPER CRUISE* ***LINE***				
			CLIPPER ODYSSEY	133	SB	P-756	2/26/2001		G	C-165
			NANTUCKET CLIPPER	111	SB	P-596	2/5/1999		G	C-158
			YORKTOWN CLIPPER	149	SB	P-331	3/17/1988		G	C-158

Parent	Operator	UPR Vessel	Berth	Perf.	No.	Date	Exp.	Date	Cm.	No.
					Trade Name					
NIPPON YUSEN KAISHA										
	NYK CR UISES				***NYK CRUISES***					
		ASUKA	600	G	P-414	3/1 111992			G	c-139
OREGON RAIL HOLDINGS LLC										
	AMERICAN WEST STEAMBOAT CO LLC				***AMERICAN WESTSTEAMBOAT CO.***					
		EMPRESS OF THE NORTH	235	E	P-813	4/1 212002				
		QUEEN OF THE WEST	149	E	P-645	711211999				C-156
I' & 0 PRINCESS CRUISES PLC										
	P & 0 CRUISES LIMITED				***P & 0 CRUISES***					
		ADONIA	2342	SB	P-024	6/2 112002				
		ARCADIA	1838	SB	P-751	2/16/2001			G	C-164
		AURORA	2050	SB	P-752	2/16/2001			G	C-164
		OCEANA	2341	SB	P-790	9/28/2001			G	c-171
		ORIANA	1976	SB	P-753	2/16/2001			G	C-164
		VICTORIA	788	SB	P-755	2/16/2001			G	C-165
	PRINCESS CRUISES INC.				***PRINCESS CRUISES***					
		CORAL PRINCESS	2400	G	P-785	9/6/2001			G	C-172
		DAWN PRINCESS	2342	G	P-787	9/28/2001			G	C-167
		DIAMOND PRINCESS	2700	G	P-015	413012002				
		GOLDEN PRINCESS	3000	G	P-708	9/28/2001			G	C-167
		GRAND PRINCESS	3000	G	P-709	9/28/2001			G	C-168
		ISLAND PRINCESS	2000	G	P-816	413012002				
		PACIFIC PRINCESS	EI6	G	P-a34	10/3/2002			G	c-171
		REGAL PRINCESS	1792	G	P-792	9/28/2001			G	C-168
		ROYAL PRINCESS	1323	G	P-793	9/28/2001			G	C-168
		SEA PRINCESS	2342	G	P-794	9/29/2001			G	C-168

Parent	Operator	Trade Name					
UPR Vessel	Berths	Perf.	No.	Date	Exp. Date	Cas.	No.
STAR PRINCESS	3000	G	P-795	9/28/2001		G	C-169
SUN PRINCESS	2342	G	P-796	9/28/2001		G	C-168

RESIDENSEA LTD.

RESIDENSEA RESORTS LTD. — ***WORLDOFRESIDENSEA***

UPR Vessel	Berths	Perf.	No.	Date	Exp. Date	Cas.	No.
THE WORLD	600	G	P-810	5/2/2002		G	C-169

ROYAL CARIBBEAN CRUISES LTD.

CELEBRITY CRUISES, INC. — ***CELEBRITYCRUISES***

UPR Vessel	Berths	Perf.	No.	Date	Exp. Date	Cas.	No.
CENTURY	1750	G	P-617	4/15/1999		G	c-143
CONSTELLATION	2449	G	P-777	5/15/2001		G	c-170
GALAXY	1908	G	P-618	4/15/1999		G	C-146
HORIZON	1677	G	P-619	4/15/1999		G	c-134
INFINITY	2046	G	P-749	2/2/2001		G	C-164
MERCURY	1670	G	P-620	4/15/1999		G	C-146
MILLENNIUM	1950	G	P-636	413011999		G	C-160
SUMMIT	2046	G	P-750	2/2/2001		G	C.167
ZENITH	1450	G	P-621	4/15/1999		G	c-139

ROYAL CARIBBEAN INTERNATIONAL — ***ROYALCARIBBEAN INTERNATIONAL***

UPR Vessel	Berths	Perf.	No.	Date	Exp. Date	Cas.	No.
ADVENTUREOFTHESEAS	3685	G	P-683	212312000		G	C-166
BRILLIANCE OF THE SEAS	2550	G	P-641	11/4/2002		G	c-173
ENCHANTMENT OF THE SEAS	2450	G	P-622	4/15/1999		G	c-147
EXPLORER OF THE SEAS	4050	G	P-614	3/17/1999		G	C-162
GRANDEUR OF THE SEAS	2450	G	P-623	411511999		G	C-146
JEWEL OF THE SEAS	2550	G	P-626	7/9/2002			
LEGEND OF THE SEAS	1606	G	P-624	4/15/1999		G	C-142
MAJESTY OF THE SEAS	2600	G	P-625	4/15/1999		G	C-I 36
MARINER OF THE SEAS	2550	G	P-627	7/9/2002			
MONARCH OF THE SEAS	2800	G	P-626	411511999		G	C-136

Parent	Operator	UPR	Vessel	Berths	Perf.	Trade Name No.	Date	Esp.	Dnfc	Cas.	No.
			NAVIGATOR OF THE SEAS	4000	G	P-828	71912002			G	c-172
			NORDIC EMPRESS	1610	G	P-627	4/15/1999			G	C-136
			RADIANCE OF THE SEAS	2550	G	P-682				G	C-164
			RHAPSODY OF THE SEAS	2450	G	P-628	4/1511999			G	C-147
			SERENADE OF THE SEAS	2550	G	P-825	7/9/2002				
			SOVEREIGN OF THE SEAS	2690	G	P-629	4/15/1999			G	C-132
			SPLENDOUR OF THE SEAS	1808	G	P-630	4/15/1999			G	C-142
			VISION OF THE SEAS	2450	G	P-632	411511999			G	c-147
			VOYAGER OF THE SEAS	3840	G	P-633	4/15/1999			G	C-158

ROY AL OLYMPIC CRUISE LINES, INC.

ROYAL OLYMPIC CRUISES, INC. — ***ROYAL OLYMPIC CRUISES***

OLYMPIA EXPLORER	927	SB	P-835	10/3/2002		G	c-171
OLYMPIA VOYAGER	927	SB	P-829	10/3/2002		G	c-171

STAR CRUISES PLC & ARRASAS LTD. & AFFILIATES

NORWEGIAN CRUISE LINE L TD — ***NORWEGIAN CRUISE LINE***

NORWAY	2400	G	P-288	3/30/1996		G	c-129
NORWEGIAN DAWN	2683	G	P-608	1/25/2002		G	C-172
NORWEGIAN DREAM	1754	G	P-526	11/18/1997		G	c-149
NORWEGIAN MAJESTY	1056	G	P-524	11/5/1997		G	c-155
NORWEGIAN SEA	1534	G	P-525	11/5/1997		G	c-149
NORWEGIAN SKY	2340	G	P-550	5/7/1998		G	C-172
NORWEGIAN STAR	1200	G	P-758	3/21/2001		G	C-167
NORWEGIAN SUN	2002	G	P-689	6/9/2000		G	C-167
NORWEGIAN WIND	1758	G	P-527	11/19/1997		G	c-149

STAR CRUISES PLC & ARRASSAS LTD. & AFFILIATE

ORIENT LINES — ***ORIENT LINES***

CROWN ODYSSEY	1196	G	P-652	61611999		G	c-157

Parent	Operator	UPR Vessel	Berths	Perf.	Trade Name No.	Date	Exp. Date	Cm.	NO.
		MARCO POLO	826	G	P-832	9/1012002			

STATE OF ALASKA

ALASKA MARINE HIGHWAY SYSTEM — ***ALASKA MARINE HIGHWAY***

UPR Vessel	Berths	Perf.	No.	Date	Exp. Date	Cm.	NO.
COLUMBIA	312		P-38	6/19/1974		I	c-103
KENNICOTT	349		P-558	6/5/1998		I	c-103
MALASPINA	274		P-38	611911974		I	c-103
MATANUSKA	256		P-38	6/19/1974		I	c-103
TAKU	106		P-38	6/19/1974		I	c-103
TUSTUMENA	68		P-30	6/19/1974		I	c-103

WALT DISNEY CO.

MAGICAL CRUISE COMPANY LTD — ***DISNEY CRUISE LINE***

UPR Vessel	Berths	Perf.	No.	Date	Exp. Date	Cm.	NO.
DISNEY MAGIC	3302	G	P-482	1/30/1997		G	c-150
DISNEY WONDER	2400	G	P-483	10/30/1995		G	C-156

CLIA CRUISE LINES INTERNATIONAL ASSOCIATION

Cruise News

CRUISE INDUSTRY REBOUNDING AT RECORD PACE IN 2002

BY

New York (September *10,* 2002) **-** The cruise industry has rebounded dramatically since the tragic events of last September.

Cruise Lines International Association (CLIA), which represents 23 North American cruise lines and 17,000 affiliated travel agencies, reports a 3.8 percent increase in the number of cruisers in the first half of 2002 over the same period in 2001. With more than 3.6 million North American vacationers taking cruises thus far in 2002 as compared to nearly 3.5 million in the first half of last year, the industry is on track to meet its target of a record 7.4 million North American cruisers in 2002.

"The fact that the public have demonstrated their belief in the value of a cruise vacation and their confidence in our industry has been extremely gratifying," says Mark Conroy, chairman of CLIA, a member of the Cruise Line Coalition communication partnership of the major cruise line associations. "It is also testimony to the hard work and commitment of the people in the industry and our travel agent partners through this difficult period.

"Adjustments to schedules and security procedures were made and have been maintained, but the same great product is being delivered in such a way that it continues to not only meet but also exceed the expectations of the vast majority of those who choose it.

"Recent financials released by the large publicly traded lines have demonstrated the continued strength of the market, resulting in slightly lower yields for the first half of 2002 but maintaining the historically high levels of occupancy," Conroy continues.

Several of the lines that had altered their European itineraries after Sept. 11 are returning to Europe, particularly the Mediterranean, in 2003, largely in response to consumers' requests. Others who had shifted their focus to itineraries departing from North American ports – some for the first time – are expanding those programs as well.

"They received such positive response to the use of these ports, which place cruises within driving distance of more residents, that they are increasing the number of departures from those locations," adds Bob Sharak, executive director and vice president of marketing and business development for CLIA.

Growth

The industry is responding to the consumer confidence by continuing to expand its fleet and providing cruisers with more options than ever. More than 20 ships are slated to enter the CLIA fleet between fall 2002 and the end of 2003.

"We have Invested literally billions of dollars not only in building state-of-the-art ships but also in consistently upgrading our existing fleets," says Conroy. "The consensus in the industry is that business will continue to improve and that we will end 2002 on a strong note, which should flow through into 2003."

"We owe the industry's resilience in some part to the thousands of dedicated travel agents who focus on cruise vacations; in fact, 95 percent of the industry's bookings come through travel agents," says Sharak.

CLIA CRUISE LINES INTERNATIONAL ASSOCIATION

Cruise News

OVER 2 MILLION CRUISERS SAIL IN THIRD QUARTER; INDUSTRY ON PACE FOR RECORD-BREAKING YEAR

By

New York (December 06, *2002*) - More than 2 million North American vacationers cruised during the third quarter of 2002, continuing the cruise Industry's record-settrng pace for the year, according to Cruise Lines International Association (CLIA). a nonprofit organization representing 24 cruise lines

The number reflects a 17 percent increase (294,000 passengers) over the same period last year CLIA-member lines also reported an average industry occupancy level of 97 9 percent during the third quarter 2002

For the first three quarters of 2002, the number of North American cruise passengers sailing on CLIA member lines is up 9 5 percent over the same period last year, for a total of 5 56 million cruisers, and on a worldwide basis, 6.43 million guests sailed on CLIA-member cruise lines – an Increase of 11 33 percent over the previous year.

"The thrrd quarter figures illustra.e the continuing strong demand for cruise vacations," says Mark Conroy. CLIA chairman and president of Radisson Seven Seas Cruises. "The industry is on course to carry 7 4 million cruisers by the end of the year, easily surpassing last year's 6 9 million"

"What has made these results even more remarkable is that the cruise industry has sustained Its vigorous growth durrng times of economic uncertainty." says Conroy "This is a testimonial to the excellent job that CLIA-affiliated travel agents have done to communicate the exceptional value, hassle-free quality, safety and excitement of a cruise vacation, as well as the Industry's aggressive marketing efforts, including positioning ships to sail from more ports within driving distance of more people"

"Considering the capacity of new ships expected to enter the market through the end of the year, traditional travel patterns and booking volume reported by CLIA-member lines, we feel confident that 2002 will be a record-settrng year," says Sob Sharak, CLIA's executive director

Since 1981, cruise passenger growth has Increased an average of 8 4 percent annually, keeping pace with the annual average capacity growth of 7.6 percent. Based on current available information, capacity under contract or planned is expected to increase at an average rate of 7.9 percent over the next five years.

CLIA-member cruise lines represent nearly 98 percent of the capacity marketed from North America

For more Information about cruise vacations, visit CLIA's website at www cruising org.

NOTE TO EDITORS: CLIA's Passenger Carryings Report Summary follows.

CLIA PASSENGER CARRYINGS REPORT SUMMARY THIRD QUARTER 2002 VERSUS THIRD QUARTER 2001

-	2001		2002		Variance 2002 Vs 2001 (Passengers)	% Increase/Decrease 2002 Vs 2001
	Number	Percentage	Number	Percentage	Number	Percentage
1 to 5 days	627,480	36 18	734,232	36.19	106,752	17 01
(6 to 8 days	980,795	56.54	1,139,954	56 19	159,159	16.23
9 to 17days	124,018	7 15	152,263	7 51	28,245	22 77
18+ days	2,269	0.13	2,263	0 11	(6)	-- (0 26)
Total N. American	**1,734,562**	**100.00%**	**2,028,712**	**100.00%**	**294,150**	**16.96**
Foreign	**294,872**		**375,419**		**80,547**	**27.32**
Total World	**2,029,434**		**2,404,131**		**374,697**	**18.46**
CLIA Bed Davs Avail			**15,530,096**			
CLIA Bed Davs Achieved			**15,208,140**			

Occupancy			97.9			
Average Length of Cruise			6.32			

CLIA PASSENGER CARRYING REPORT SUMMARY FIRST THREE QUARTERS 2002 VERSUS FIRST THREE QUARTERS 2001

-	2001		2002	2002 Vs	Variance 2001 (Passengers)-	% increase/Decrease 2002 Vs 2001
	Number	Percentage	Number	Percentage	Number	Percentage
1to 5 days	1,851,607	3 6 4 3	1,916,999	34 45	65,392	3. 5 3
6 to 8 days	2,862,238	52.78	3,074,068	55.24	391,830	14.61
9 to 17days	525,690	10 34	553,334	9.94	27,644	5.26
18+ days	22,789	0 45	20,919	0.38	(1,870)	(8.21)
Total	**5,082,324**	**100.00%**	**5,565,320**	**100.00%**	**482,99100.00%**	5565320:
Foreign	**689,182**		**859,883**		**170,701**	**24.77**
Total World	**5,771,506**		**6,425,203**		**653,697**	**11.33**
CLIA Bed Days Avail			**45,291,192**			
CLIA Bed Days Achieved			**43,322,752**			
Occupancy			**95.7**			
Average Length of Cruise			**6.74**			

SUMMARY - FIRST THREE QUARTERS

. . .			Change	
	2001	2002	Number	%
Total Estimate of North American Passengers - CLIA and non-CLIA lines	5,288,578	5,690,511	401,933	7 6
CLIA Fleet as a % of Total	96 1%	97.8%		+ 1 7% pts.

Cruise News

CLIA LINES HOST 8.66 MILLION CRUISE VACATIONERS IN 2002

BY

New **York** (March 04, 2003) - More than 7.6 million North Americans are estimated to have cruised in 2002 – Including 7 47 million on Cruise Lines International Association (CLIA) member line ships – surpassing industry expectations and setting yet another record, according to CLIA, the non-profit marketing organization that represents 25 North American cruise lines

They were part of a worldwide total of 8.66 million cruise guests hosted by CLIA member lines last year. This represents a 15.5 percent increase (over the 2001 number of 7 49 million) in worldwide guests sailing on CLIA member cruise lines at an average 2002 industry utilization of 97 percent.

"Despite the challenges we faced in 2002, the industry not only met but exceeded its projections and easily bettered the record number of 6.9 million North Americans who cruised in 2001," says Mark Conroy, chairman of CLIA "The industry's response to such challenges as the threat of military action, an uncertain economy and exaggerated and inaccurate reports of a common stomach virus contributed to the Impressive statistics we were able to record."

The response, CLIA's Executive Director Bob Sharak points out, Included aggressive marketing as well as adaptive and innovative programs.

"Through aggressive marketing and intensified public relations activities and advertising, our goal was, first, to reassure the public that it was, in fact, safe to travel and then to remind consumers of cruising's diversity, excitement and value," says Sharak "Plus, the cruise lines' aggressive pricing programs made an already great vacation value an irresistible one."

The lines also responded by adapting existing itineraries to world events. Many created new itineraries based from homeports within easy driving distance of major North American population centers.

"These proved so successful that they spurred a growing market for drive-cruise vacations and introduced cruising to many people who had been reluctant to fly even before 9/11," says Sharak.

With 13 new ships added to the fleet in 2002, the cruise Industry kept its standards high and even raised the bar for new and innovative programs that expanded the range of choices in onboard dining, entertainment and recreation, technology and onboard facilities, including environmental, safety and security systems.

Sharak is confident the industry will be able to handle any challenges thrown its way in 2003 just as well. "At our current occupancy levels and with the 14 new ships slated to enter the fleet, the industry has the opportunity to welcome 1 million more guests this year – a potential of 8.3 million passengers from North America and 9 6 million worldwide," he says.

CRUISES OFFER BETTER VACATIONS FROM MORE PORTS

By

New **York** (October 22, 2002) - More North Americans than ever are beginning their cruise vacations with a short drive to a nearby port city The trend for cruise lines to positron ships at more "close-to-home" ports has boomed in the past year and is predicted to continue.

Cruises departing from East Coast ports take passengers north to New England and Canada, south to Bermuda, Bahamas, the Caribbean, and South America, and inland to some of America's most scenic waterways. Cruise ships departing West Coast ports take travelers north to Alaska, south to the Mexican Riviera and west to the Islands of Hawaii and Tahiti, while travelers departing from Gulf Coast ports now find themselves able to select from a wide variety of new Itineraries and cruising experiences.

Passengers can even set sail from numerous North American ports on a cruise that will take them around the world.

"Expanded use of North American ports has opened up a world of opportunities and convenience for travelers, making the cruising experience more accessible, particularly to those who may not wish to fly to the port of embarkation," says Bob Sharak, executive director of Cruise Lines International Association (CLIA), a member of the Cruise Line Coalition, a communication partnership of the major cruise line associations.

"It also is beneficial for those who may not want to spend additional money on transportation to their vacation In fact, the new 'drive-and-cruise' options have become so popular that many lines are scheduling additional departures in 2003," says Sharak.

"The emphasis on what has been termed 'non-traditional' ports closer to home also has served to assist the local economies in those port cities and surrounding areas," says Michael Crye, president of the International Council of Cruise Lines (ICCL), also a member of the Cruise Line Coalition.

"Cruise lines bring economic benefits to ports of call and ports of embarkation, whether it be through direct employment servicing the ship or the added boost in tourism that results from pre- and post-cruise stays, sightseeing, and money spent in local restaurants, retail shops and purchasing provisions," Crye adds.

Building on the unique nature of these ports and a heightened Interest in U.S travel, several cruise lines are offering pre- and post-cruise excursions that explore the history and wonders of North America

Plus, many people use a cruise as a way to sample a destination they may want to return to in the future

East Coast Ports

While Florida continues to be the primary host for East Coast cruise departures, the number of cruises departing from other East Coast ports is on the rise, according to CLIA.

The Florida ports of Miami, Port Canaveral, Port Everglades/Fort Lauderdale and Tampa continue to dominate the scene, but the popularity of departures from other eastern seaboard cities has swelled.

East Coast ports that have seen big increases in cruise traffic in 2002 include New York, Boston; Baltimore; Philadelphia; Norfolk, Va., and Charleston, SC Other options for passengers are cruises departing from Montreal; New London, Conn; Amelia Island, Fla., and Portland, Maine.

According to a CLIA destination study, the number of cruises departing from Boston nearly doubled since 1994, from 23 to 42, and the number of cruises departing from New York rose from 156 to 227 during that same time period.

West Coast Ports

Millions of cruisers are starting their journeys from the busy ports of the Pacific Coast.

CLIA reports that more than 825 cruises were scheduled to depart from Los Angeles, San Diego, San Francisco, Seattle, Seward, Vancouver and Honolulu in 2002 – a seven-percent jump from the 770 cruises that sailed from those ports in 2001.

Of the West Coast ports, San Diego experienced the biggest Increase in cruise activity in the last year, with 86 cruises scheduled to depart in 2002 as compared to 43 the previous year

“These embarkation points lend themselves to exploration of such ports of call as Monterey and Ensenada, Calif.; Acapulco, Mazatlan and Puerto Vallarta, Mexico; Juneau, Skagway and Ketchikan, Alaska; Kona and Hilo, Hawaii; and Victoria, B.C.,” Sharak adds.

Whether travelers choose a three- or four-day Baja cruise, a week-long Journey through Alaska’s Glacier Bay, or a longer fall repositioning cruise through the Panama Canal to a ship’s new seasonal home in Florida, the Pacific Coast offers numerous choices

Gulf Coast Ports

CLIA reports that more ships are using the term "home" to describe the Gulf Coast ports of Houston and Galveston, Texas, New Orleans, La., Tampa and Port Manatee, Fla.; and Mobile, Ala

The CLIA member-lines feature a full range of experiences on cruises departing from Gulf ports, from a two-day cruise to nowhere to a journey across the Atlantic Ocean, Ships visit the Caribbean on popular four-, five- and seven-day sailings, while others make port calls along the coast of Mexico, Central America and Key West, Fla., or transit the Panama Canal as part of a repositioning cruise.

For more information on cruising and links to the CLIA-member cruise lines that visit North American ports, visit CLIA's websrte at www cruising.org or ICCL's site at www iccl.org.

The experts at a CLIA-affiliated travel agency can help you find the cruise that's best for you.

To find a CLIA-affiliated agency, look for the Cruise Expert Locator at CLIA's website, www cruising org; by typing in either your zip code or area code, you can find the expert nearest you.

Cruise News

CRUISE INDUSTRY BRINGS IN 2003 WITH NEW SHIPS, INNOVATIONS, CLOSE-TO-HOME AND WORLDWIDE PORTS

By

New **York** (January 03, 2003) - New ships, enhanced cruise product features and more embarkation and destrnation options than ever before -that's what travelers will find in the cruise industry in 2003.

Fourteen new vessels – as well as several re-launched ships – will join the CLIA fleet in 2003, continuing to expand the cruise vacation options for both repeat and first-time cruisers, according to Cruise Lines International Association (CLIA). These ships join the 13 new vessels the cruise industry launched in 2002.

Today's ships feature new innovations and the latest amenities and programs, as well as more balconies than ever before (see separate story on new ships) in addition to new guest services. These new ships join the CLIA fleet with new technologies to ensure the continued safety, comfort and care of guests and crew Each ship meets the highest U.S. and international safety and health standards, with many featuring technology that enables onboard medical staff to communicate directly with physicians at shoreside hospitals.

The vessels also employ new technologies to ensure that the cruise industry protects the natural resources that make cruise vacations so appealing.

"With an estimated 44.3 million Americans stating an intent to take a cruise within the next three years, the industry is positioning itself to continue our impressive growth trend," says Bob Sharak, CLIA's executive director.

CLIA estimates that this level of interest could translate into nearly 27 million people takrng a cruise vacation during the next three years.

"New ships, itineraries, amenities and programs, along with the exceptional value make a cruise an extremely attractive choice for a vacation," Sharak adds.

In all, CLIA estimates that 7 4 million North Americans will cruise in 2002 and that approximately 8 million guests will enjoy a cruise vacation in 2003, a marked increase from the 1 4 million who cruised in 1980, the first year the Industry statistics were compiled by CLIA.

A World of Destinations

In 2003, CLIA-member cruise lines will feature itineraries that offer both unusual ports as well as long-time favorite destinations. (See separate story on destinations.) While the Caribbean and Alaska continue to be among the most popular destinations, travelers can also choose from itineraries that will take them to such exotic locations as South America, Antarctica, the South Pacific, the Baltics and Norwegian Fjords.

The number of European itineraries, particularly in the Western Mediterranean and Baltic regions, is expected to increase, as several lines expand their Europe programs.

The trend toward using ports close to home as departure points will continue to grow as well In addition to the more traditional Florida ports of Port Canaveral, Miami, Fort Lauderdale and Tampa/St. Petersburg, and West Coast ports of Seattle, San Francisco, Los Angeles and Vancouver, the lines are increasing departures from such easily accessible locations such as Boston, New York, Philadelphia, Baltimore, New Orleans, Houston, Galveston, and Honolulu.

An Enriching Experience

Cruise lines have responded to the varied interests of travelers by offering a range of new cultural/educational programs, activities and shore excursions that continues to grow.

Destination-intensive itineraries offer in-depth experiences on both land and sea, with distinguished guest lecturers and programs on board as well as shore excursions designed to enhance the experience. Several lines feature cruises built around cultural and entertainment themes, while others offer enrichment courses in a variety of subjects such as computer skills, finance, cooking, pottery-making, and various art forms.

Plus, in response to the growing number of youngsters cruising, the lines continue to expand their children's programs, offering a combination of education, enrichment – in addition to plenty of fun.

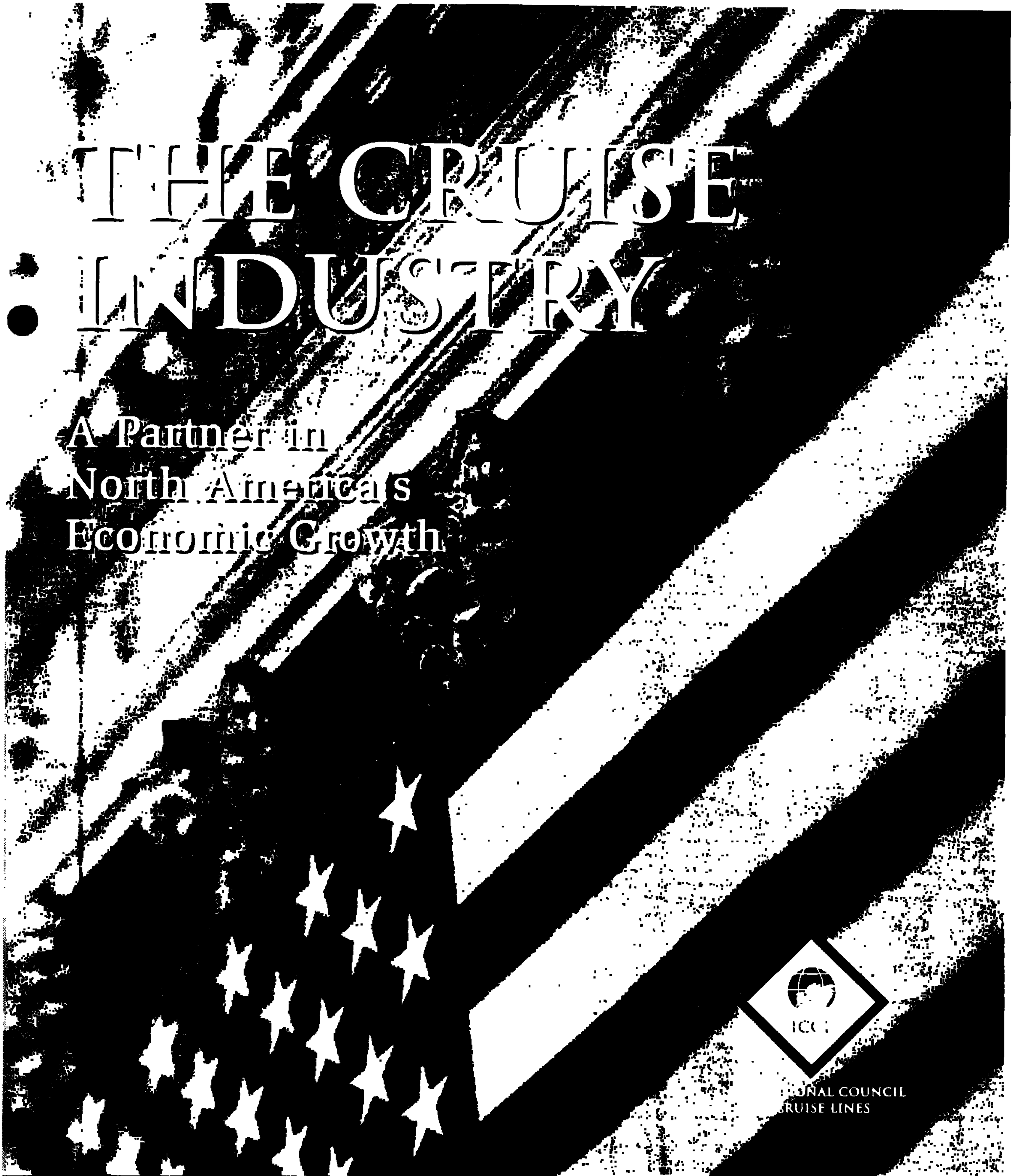
A Taste of the Sea

Remarkable dining experiences have long been associated with cruises, and the trend of offering dining options in a variety of settings continues to grow in popularity. Among the options and special dining touches available in 2003 are the industry's first shore-side dining program, new menus from some of the world's most renowned chefs, and more dining options, including alternative restaurants as well as open-seating, resort-style dining.

To learn more about CLIA and its member lines, visit CLIA's website at www cruising org.

THE CRUISE INDUSTRY

A Partner in North America's Economic Growth



Despite the tremendously challenging environment faced by the leisure travel i… 2001, the North American cruise industry maintained its strong growth and… expand its contribution to economic activity in the United States.

RCL0113

2001 CRUISE INDUSTRY GENERAL OVERVIEW

2001 proved to be a challenging year for the North American cruise industry The industry was faced with deteriorating economic conditions marked by a recession in the United States. and the placement and marketing of another five percent increase in capacity Then, the terrorist attacks of Sept. 11 made a difficult business situation even more challenging

Immediately following the attacks, cruises were either cancelled or embarked half-full when the airlines were grounded and ports were closed to all shipping. The industry rebounded by accelerating its move to shorter cruises and cruises originating in drive-up markets In addition to increasing travel agent commissions, the crmse lines cut prices, which in turn attracted many first-time cruisers

As a result of its actions, the crmse Industry was able to recover much more quickly than other leisure sector industries. The cruise industry was able to increase global passenger carryings by five percent to 8.4 million passengers and increase direct spending by the crmse lines and then passengers by six percent to $11 billion

This analysis. conducted by Business Research and Economic Advisors (BREA), expands on a previous study from 2000. It measures the direct, indirect and total (combined direct and indirect) economic benefits to the crmse industry and provides an estimate of the growth of the industry and its contribution to the U S. economy

BENEFITS OF THE NORTH AMERICAN CRUISE INDUSTRY TO THE U.S. ECONOMY IN 2001

Total economic benefit of the cruise industry in the United States.......,.......,. $20 billion

Direct spending of the cruise lines and passengers on U.S. goods and services ...,...... $11 billion

Total jobs generated by these expenditures..................................,...... 267,762

Total wages generated for U.S. employees..,..........................,........... $9.7 billion

INDUSTRIES MOST BENEFITED BY CRUISE INDUSTRY SPENDING

Business services' .... $2.2 billion

Airline transportation. .... $2.1 billion

Financial services'. .... $2.0 billion

1 Transportation services? .... $1.8 billion

Energy[4] .. .. $1.4 billion

[1] Includes services such as advertising management consulting engineering and architectural services, and computer consulting services
[2] Includes banking investment insurance and real estate services
[3] Includes travel agents, ground transportation services and U S -based excursions
[4] Includes petroleum refining utility services, and oil and gas extraction

PASSENGER AND VESSEL GROWTH IN THE CRUISE INDUSTRY

Cruise passenger numbers have w-eased proportionately to the industry s growth Despite the impacts of Sept. 11, the cruise industry increased its global passenger base to 8.4 million, a five percent increase from the previous year. Almost half, 48 percent, of the industry's global cruise passengers embarked on their cruises from Florida ports which include the Port of Miami, Port Canaveral, Port Everglades. the Port of Tampa and Port Manatee

With continued efforts by the cruise lines to grow, the industry has a renewed commitment to investing billions of dollars in building state-of-thc-art ships and consistently upgrading existing fleets Between 2001 and 2005. ICCL member lines are expected to bring 35 new ships into the fleet at a cost of approximately $12 billion.

Operating Statistics of the North American Cruise Industry in the United States

	1999	2000	2001	ANNUAL PERCENT CHANGE 1999-2000	2000-2001
Capacity Measures					
Number of Ships	149	163	167	9 4%	2 5%
Lower Berths	148,237	165,381	173,846	11.6%	5.1%
Carryings (Millions)					
Global Passengers	6.85	8.00	8.40	16.8%	5.0%
Passengers Residing in U.S.	5 63	6 57	680	16 7%	3.5%
U.S Embarkations	4 73	5.31	5 90	12 3%	11 1%
Industry Spending in **U.S.** ($ Billions)	8 13	9 41	9 99	1 j 7%	6 2%
Cruise Lines	$681	$ 807	$8 14	180%	0 9%
Goods and Services	$ 6.21	$ 7.14	$734	15 0%	2 8%
Capital Equipment (incl net interest)	$ 0.63	$ 0 93	$ 0 80	47.6%	-14 0%
Passengers	$ 1.29	$ 1 34	$ 1 85	3 9%	38 1%
Wages & Taxes Paid by Cruise Lines	$0.68	$ 0.89	$ 0.99	30 9%	11 2%
Total U.S.-based Spending	$ 8.81	$ 10.30	$ 10.98	16.9%	6.6%

Source Business Research & Economic Advisors and CLIA

Economic Impact of the North American Cruise Industry in the United States

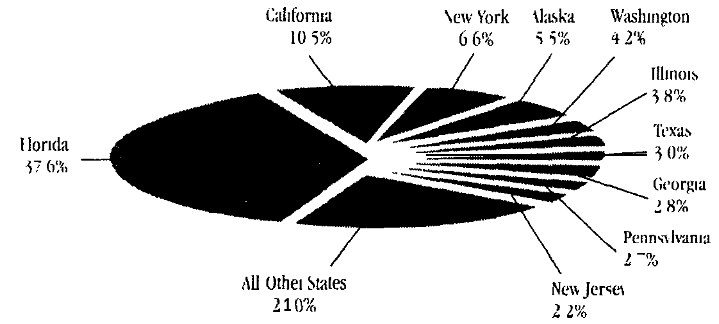
	BILLIONS OF U S DOLLARS 1999	2000	2001	ANNUAL PERCENT CHANGE 1999-2000	2000-2001
U.S. Passenger Embarkations (Millions)	4.73	5 31	5 90	12.3%	1 1 1%
Direct Economic Impacts					
Passenger and Cruise Line Spending ($Billions)	$ 8 13	$ 9.39	811.00	15.5%	17 1%
Employment	81,063	95,592	101,636	17 9%	6 3%
Wages and Salaries ($ Billions)	$ 2.35	$ 2 87	$ 3 50	22 1%	22 0%
Total Economic Impacts					
Industrial Output ($ Billions)	$1549	$ 1 7 89	$20.00	15 5%	11 8%
Employment	214,901	257,067	267,762	19 6%	4 2%
Wages and Salaries ($ Billions)	$ 698	$ 8 72	$ 9.72	24.9%	11 5%

Source Business Research & Economic Advisors

Top State Economic Impacts 2001

Ten states accounted for 79 percent, or $8.69 billion, of the direct vendor purchases of the North American cruise industry. These states included Florida, California, New York, Alaska, Washington, Illinois, Texas, Georgia, Pennsylvania and New Jersey.

TOTAL DIRECT EXPENDITURES OF THE NORTH AMERICAN CRUISE INDUSTRY BY TOP STATES
U.S. TOTAL $11 BILLION



Source: Business Research & Economic Advisors

Total U.S. Industry and Job Impact of the North American Cruise Industry

The cruise industry directly spent $11 billion in the United States. As shown in the table below, this spending, in turn, generated $9 billion in additional industry output, bringing the total economic benefit of the cruise industry to $20 billion. This input resulted in the employment of 267,762 workers and $9.7 billion in wages and salaries throughout the U.S. economy.

SECTOR	INDUSTRY OUTPUT $ MILLIONS	EMPLOYMENT	WAGE INCOME $ MILLIONS
Agriculture, Mining & Construction	$ 1,319	17,363	$ 604
Manufacturing	$ 5,328	44,918	$ 1,940
Food & Beverages	$ 1,006	5,489	$ 195
Textiles	$ 193	1,988	$ 58
Apparel	$ 286	2,486	$ 59
Paper & Paper Products	$ 191	1,482	$ 68
Printing & Publishing	$ 281	3,769	$ 152
Chemicals	$ 359	2,127	$ 145
Petroleum Refining	$ 578	471	$ 30
Other Nondurables	$ 180	2,393	$ 84
Primary Metals	$ 248	1,749	$ 79
Fabricated Metal Products	$ 262	3,510	$ 133
Industrial Machinery	$ 304	3,9'3	$ 214
Ship Maintenance & Repair	$ 621	3,856	$ 198
Electronic Equipment	$ 406	3,673	$ 208
Instruments	$ 64	1,326	$ 77
Other Durables	$ 349	6,626	$ 245
Transportation & Utilities*	$ 6,562	79,401	$ 2,860
Wholesale & Retail Trade	$ 1,280	33,382	$ 1,050
Finance, Insurance & Real Estate	$ 1,980	11,328	$ 491
Services & Government	$ 3,516	81,370	$ 2,775
Business Services	$ 2,247	41,534	$ 1,565
Lodging & Entertainment	$ 565	12,646	$ 277
Other Services & Government	$ 703	27,190	$ 933
Total	**$19,985**	**267,762**	$9,721

Source: Business Research & Economic Advisors

** Includes contributions to the core cruise travel industry: travel agent commissions, airfares of cruise passengers, and port authority and port service provider fees*

2001 Economic Impact of the North American Cruise Industry by State

The North American cruise industry benefited every state economy through $11 billion in direct purchases, 267,762 jobs and $9.7 billion in wages

State	Direct Purchases ($ Millions)	Total Employment	Income ($ Millions)
Alabama	$ 112	1,954	$ 64
Alaska	$ 605	14,562	$ 470
Arizona	$ 90	1,241	$ 46
Arkansas	$ 14	209	$ 8
California	$ 1,158	41,715	$ 1,742
Colorado	$ 81	1,620	$ 63
Connecticut	$ 59	891	$ 43
Delaware	$ 18	197	$ 8
District of Columbia	$ 32	304	$ 17
Florida	$ 4,134	116,845	$ 3,757
Georgia	$ 311	5,198	$ 209
Hawaii	$ 63	1,692	$ 54
Idaho	$ 6	115	$ 3
Illinois	$ 416	7,887	$ 330
Indiana	$ 41	880	$ 30
Iowa	$ 21	434	$ 13
Kansas	$ 16	326	$ 10
Kentucky	$ 173	3,221	$ 118
Louisiana	$ 165	4,905	$ 156
Maine	$ 12	263	$ 7
Maryland	$ 88	1,425	$ 57
Massachusetts	$ 196	3,389	$ 154
Michigan	$ 95	1,667	$ 73
Minnesota	$ 60	1,910	$ 74
Mississippi	$ 116	1,708	$ 56
Missouri	$ 54	1,056	$ 37
Montana	$ 5	96	$ 2
Nebraska	$ 11	211	$ 7
Nevada	$ 43	544	$ 19
New Hampshire	$ 23	454	$ 16
New Jersey	$ 240	3,534	$ 175
New Mexico	$ 9	174	$ 5
New York	$ 730	11,113	$ 498
North Carolina	$ 160	2,647	$ 96
North Dakota	$ 11	227	$ 6
Ohio	$ 135	2,818	$ 100
Oklahoma	$ 24	490	$ 14
Oregon	$ 43	892	$ 32
Pennsylvania	$ 300	5,948	$ 224
Rhode Island	$ 35	581	$ 20
South Carolina	$ 39	796	$ 26
South Dakota	$ 4	68	$ 2
Tennessee	$ 42	834	$ 28
Texas	$ 325	5,263	$ 207
Utah	$ 28	663	$ 21
Vermont	$ 5	165	$ 5
Virginia	$ 129	2,277	$ 94
Washington	$ 462	11,382	$ 497
West Virginia	$ 7	144	$ 4
Wisconsin	$ 33	691	$ 23
Wyoming	$ 3	41	$ 1
U.S. TOTAL	**$10,984**	**267,762**	**$9,721**

STUDY DETAILS

BREA gathered and analyzed data from a broad spectrum of the industry including all of the major cruise lines BREA obtained aggregate revenue and expenditure categories as well as expenditures by the cruise lines in the U.S by individual vendors to form the basis for detailed industry and state impacts. Additionally, BREA used its industry and macroeconomic econometric models to trace the impact of cruise line spending on U.S. output and jobs by industry and used U.S. government impact factors to determine the state analvsis.

The full report provides a detailed outline of the study's conclusions regarding the cruise industry's revenues and expenditures in 2001. The report may be viewed on the ICCL Web site at www.iccl.org.

ICCL MEMBER LINES

Carnival Cruise Lines . Celebrity Cruises • Costa Cruise Lines N V • Crystal Cruises
Cunard Line Limited • Disney Cruise Line • Holland America Line • Norwegian Cruise Lme • Orient Lines
Princess Cruises • Radisson Sewn Seas Cruises • Regal Cruises • Roval Caribbean International
Roval Olympic Cruises • Seabourn Cruise Line • Windstar Cruises

ASSOCIATE MEMBER COMPANIES

AFM, Inc • Alaska Magazine Television • Alstom Chantiers de l'Atlantique • Amadeus North America LLC • American Bureau of Shipping
American Detection Technologies, Inc • American International Companies • Aon Risk Services. Inc. • Atlantic Marine, Inc
The Berkely Group • Blohm+Voss GmbH • Board of Commissioners of the Port of New Orleans • Business Research & Economic Advisors
Canaveral Port Authority • The Coca-Cola Company • Det Norske Veritas • Eastman Kodak Company • Ecolab Inc
Excel Food Distribution Co . Fincantieri-Cantieri Navali Italiani S p A • Formica Corporation • Freeport Harbour Company
Fuji Photo Film U S A . Inc . GARD Services • Harbour Marine Systems, Inc • Hobart Corporation . Houck, Hamilton & Anderson, PA
Hydroxyl Systems Inc • Image • International Paint • International Registries, Inc • J R Simplot Company
Jos L Meyer GmbH & Co • Kaye, Rose & Maltzman, LLP • Konica Photo Imaging • Lloyd's Register
M Rosenblatt & Son (MR&S), An AMSEC LLC Group • Maritime Telecommunications Nehvork, Inc
Marseille Provence Cruise Club Marsh Ltd • Mase & Gassenheimer, PA • Milliken & Company • P&O Ports North America
Port Everglades • Port of Galveston Port of Houston Authority • The Port of Los Angeles • Port of Miami • Port of Palm Beach
The Port of Philadelphia & Camden -- Dept of DRPA • Port of San Diego • Port of Seattle • Progressive Specialty Glass Company
SeaKing (International) AG • Seatrade Cruise Shipping Convention/CMP Princeton Inc • Security Identification Systems Corporation (SISCO)
Steamship Insurance Management Services Limited (SIMSL) • Sterling Publications Limited . Tampa Port Authority
Teakdecking Systems • Tropical Shipping & Construction Co . Ltd. . U K P&I Club • Unitor Ships Service Inc • VingCard Marine
Wärtsila • Watson, Farley & Williams • Willis • Zenon Environmental Systems Inc

INTERNATIONAL COUNCIL OF CRUISE LINES

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www.iccl.org

FMC Passenger Vessel Financial Responsibility Chronology

07/00/64	***SS Yarmouth Castle,*** a 38-year old Panamanian-flag cruise ship cancelled a scheduled departure.
08/14/64	***MS** Riviera **Pnma*** voyage was cancelled, leavmg 350 passengers stranded in the Port of New York.
08/--/65	"Coastwise Cruise Regulations: Hearings before the Subcomm. on Merchant Marine of the House Comm. on Merchant Marine and Fisheries," 89th Congr., 1st Sess. (1965).
09/22/65	H. Report No. 1089, 89th Congr., 1"' Sess. (1965).
10/05/65	House passed H.R. 10327.
11/13/65	***SS Yarmouth** Castle* caught fire during a Caribbean cruise; all passengers had to abandon ship and 90 people were killed.
04/08/66	Norwegian-flag ***MS Viking*** Princess caught fire; crew and passengers abandoned ship; no casualties.
08/18/66	S. Report No. 1483, 89th Congr., 1"' Sess. (1966) [1966 USCCAN 4176].
11/06/66	**Pub. L.** 89-777 enacted (as amended, 46 U.S.C. App. 817e (2000)), with Section 3 to be effective 120 days thereafter.
12/13/66	**FMC NPRM issued (FMC Dkt 66-67)**, proposing new Part 540 to implement Section 3 of Pub. L. 89-777, and establishing a schedule for comments, including a response to initial comments by Hearing Counsel and an opportunity for reply thereto (31 Fed. Reg at 15703)
02/08/66	FMC heard oral argument in Dkt 66-67.
02/18/66	FMC published a Request for Additional Comments on the proposed rule (32 Fed. Reg. 3064).
03/11/67	**FMC Final Rule** (Dkt 66-67; General Order 20), adopting Part 540 with $5M UPR ceiling (FMC rejected suggestion of a lower $3.5 ceiling, stating that the $5M was "the result of the studied judgment of the Commission's staff from data and information provided to it by various segments of the industry," and "is a fair figure" (32 Fed. Reg. 3986; 3/11/67; Notice of Amendment published at 32 Fed. Reg. 5457 (April 1, 1967), eff. 4/5/67).
04/01/80	FMC increased UPR ceiling from $5M to $10M (Dkt 79-93; Final Rule, 45 Fed. Reg. 23428; 4/1/80).

08/23/90	**FMC Final Rule** in Dkt 90-01, increasing the UPR ceiling to $15M[1] and amending the semi-annual reporting requirement to require each operator to state its highest UPR for each month in the 6-mo. reporting period, served 8/1 7/90 and published in the Federal Register, effective 2/19/91 (55 Fed. 34564; 8/23/90).[2]
"	**FMC Order of Investigation (Fact Finding Investigation** No. 19, "Passenger Vessel Financial Responsibility Requirements") served 8/1 7/90 and published in the Federal Register (55 Fed. Reg. 34610; 8/23/90), instituting a nonadjudicatory investigation "to develop current financial and operational information regarding the passenger vessel industry to determine whether additional or alternative means of regulation would be appropriate in the area of financial responsibility" under Commissioner Francis J. Ivancie as Investigative Officer, directing a final report within seven months after publication in the Fed. Reg.
04/11/91	**FMC Fact Finding Investigation No.** 19, **"Report to the Commission,"** by Commissioner Francis J. Ivancie, concluding that no ***further increase in the*** *$15M UPR* ***ceiling is*** *justified,*[3] and recommending that the FMC consider a sliding scale, taking an operator's past performance into account, should the FMC nevertheless decide some increase is necessary, and consider seasonal variations, past experience, vessel redeployment and other related items in setting the ceiling, and recommending liberalization of the self-msurance rules to permit consideration of assets outside the U.S.
08/15/91	**FMC ANPRM and Notice of Inquiry (Dkt 91-32)** issued, soliciting comments on the FF- 19 Report's recommendations and particularly the meaning of Section 3(b) of Pub. L. No. 89-777 (56 Fed. Reg. 40586; 8/15/91).

1/ The FMC noted that its records "support the contentions of the larger operators concerning their record of performance," and stated that "The most recent passenger vessel failures have mvolved new or small operators," citing the examples of Aloha Pacific Cruises, American Cruise Lmes, Exploration Cruise Lmes and Great Pacific Cruise Lines (55 Fed. Reg. 34564, at 3456_). In each of these instances, the evidence of financial responsibility was sufficient to cover all passenger claims for nonperformance (FF-19 Rpt at pg. 5).

2/ The FMC stated that a six-month transition, as suggested by American Hawaii Cruises "is not unreasonable" since "the evidence of financial responsibihty which carriers have posted must be fully collateralized by cash or equivalents as a requirement of underwriters providing such evidence," and "[clash flows are needed to meet operating expenses and other operation commitments to service debt and are, therefore, not readily accumulated in the short term" (55 Fed. Reg. 34564, 3456_).

3/ Commissioner Ivancie stated that "The Commission has consistently interpreted the statue as requiring financial responsibility, not financial guaranty," and "that a dollar-for-dollar bonding requirement would unnecessarily increase an operator's cost of domg business" (FF-19 Rpt, at 15) He stated that "[i]n the twenty-five years since enactment of P.L. 89-777, there have been relatively few passenger cruise operator bankruptcies, and . . in each case, the existing evidence of financial responsibility was more than adequate to cover potential passenger claims" (id.) He concluded that "the record [before him] is devoid of any compelling evidence that warrants an increase of our current $15 million ceiling" (id., at 25), and stated that requmng dollar-for-dollar coverage "would be departing from its established policy with no reasonable justification" (id., at 15).

02/28/92 FMC Chairman Christopher Koch letter to House Merchant Marine and Fisheries Committee Chairman Walter Jones.[4/]

05/04/92 **FMC discontinues Dkt 91-32,** announces its intent to retain the $15M ceiling, and issues **NPRM (Dkt 92-19)**, proposmg to (1) institute a sliding-scale formula for operators meeting certain requirements, (2) providing that operators meet only existing net worth standards to qualify as self-msurers, (3) require semi-annual reporting, (4) provide certain treatment for "whole-ship" arrangements, and (5) publish a suggested form escrow agreement, published m the Federal Register (57 Fed. Reg. 19097; 5/4/92), and inviting comments by 6/1 8/92.

09/14/92 **FMC Final Rule** issued in Dkt 92-l 9, effective 10/14/92 (54 Fed. Reg. 41887; 9/1 4/92), essentially adopting the proposed rule except certain provisions relating to self-insurance which were set-aside for further review in a separate docket to be established (Dkt 92-50 below).

10/20/92 **FMC NPRM (Dkt 92-50)**, proposing to amend Part 540 (1) to permit operators demonstrating a minimum 5 years of U.S. operations with a satisfactory explanation of any non-performance claims to meet only net worth standards to qualify as self-insurers, and (2) prohibit operators qualifying for self-insurance from using the sliding scale provisions to qualify for a Certificate, and inviting comments by 1 1/4/92 (served 10/1 5/92, and published at 57 Fed. Reg. 47830; 10/20/92).

12/31/92 **FMC Final Rule** issued in Dkt 92-50, essentially adopting the proposed rule, effective 2/1/93 (57 Fed. Reg. 62479; 12/31/92).

12/20/93 **Pub. L. 103-206, Coast Guard Authorization Act of 1993** enacted, Section 320 of which amends Section 3(b) of Pub. L. 89-777 by striking "and such bond or other security shall be in an amount equal to the estimated total revenue for the particular transportation."[5/]

03/31/94 **FMC NPRM (Dkt 94-06)**, served 3/28/94, and published in the Federal Register (59 Fed. Reg. 15149; 3/3 1/94), inviting comments by 5/2/94 (subsequently extended to 6/10/94 (59 Fed. Reg. 23182; 5/5/94), and ultimately to 6/24/94 (59 Fed. Reg. 30567; 6114194)).

10/14/94 **FMC Notice of Inquiry (Dkt 94-21)**, served 10/7/94, published in the Federal Register, holding Dkt 94-06 in abeyance, and inviting comments by 1 1/28/94

[4/] A copy of this letter is included in Heanng Record on H.R. 4156, a bill to authonze appropriations for the FMC for FY93 – Ser No. 102-59 (2/6/92), at pgs 93-96) The letter contains favorable language as to (1) the FMC's interpretation of Section 3 as not requmng dollar-for-dollar coverage, and (2) the adverse impact which requmng such coverage would have on large carriers who were not the target of Pub. L. 89-777.

[5/] This amendment was issued, at least in part, in response to urgings by the FMC, and made clear Congress' intent that dollar-for-dollar coverage was neither intended nor required by the statute.

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(59 Fed. Reg. 52133; 10/14/94) [Dkt discontinued, per Notice published 7/31/96 (61 Fed. Reg. 39940)].

10/29/95 **Regency Cruises** ceased operations, and subsequently filed for Ch. 11 bankruptcy protection on 1 1/7/95 (see 61 Fed. Reg. 33059).

10/30/95 **Palm Beach Cruises** filed for Ch. 11 protection to reorganize (see 61 Fed. Reg. 33059).

06/26/96 **FMC Further NPRM** in Dkt 94-06, served 6/20/96 and published in the Federal Register (61 Fed. Reg. 33509; 6/26/96), citing the above recent bankruptcy filings and inviting comments by 8/26/96, subsequently extended to 9/25/96 (61 Fed. Reg. 43209), and ultimately to 10/15/96 (61 Fed. Reg. 50265).

07/31/96 **FMC Notice discontinuing Dkt 94-21,** published (61 Fed. Reg. 39940; 7/31/96).

09/05/00 **Cape Canaveral Cruise Line** announced **termination of operations,** citing need for a $3.5M overhaul to its only vessel, the ***Dolphin*** IV, and Carnival's decision to deploy the *Tropicale* to Port Canaveral, joining one NCL, one RCL and two DCL vessels already operating there.

09/22/00 **Premier Cruise Lines** announced that Premier had **ceased operations** on 9/14/00 (see FMC Press Releases Nos. 00-13, dated 9/1 5/00, & 00-l 5, dated 9/22/00).

12/27/00 **Commodore Holding Co., parent of Commodore and Crown Cruise Lines** filed for bankruptcy under Ch. 11 of the U.S. Bankruptcy Code in the S.D. Fl. (See FMC Press Release No. 0 1-O 1, dated 1/3/0 1.)

July 200 1 **Great Lakes Cruises, Inc.** ("GLC") ceased operations, after failing health inspections in connection with chartered, Greek-owned vessel Arcadia, which was scheduled to depart out of Canadian Great Lakes ports for the 2001 & 2002 shipping seasons.[6]

09/11/01 Attack on America -- World Trade Center, Pentagon.

09/25/01 **Renaissance Cruises, Inc.** filed for voluntary Ch. 11 liquidation in S.D. Fl. (01-27062).[7]

W GLC, based in Waukesha, WI, was pnvately-owned by U S.-based travel agency, and operated using chartered vessel space, operating out of Canada (GLC therefore was not subject to the FMC's performance bond program) Founder and President, Ralph Diehl, filed individual Ch. 11 bankruptcy m E.D. WI on 10/1 1/02 (Case #02-33169)

7/ Renaissance was a pnvately-owned Antigua corporation, formed in 1986, and operating out of non-U.S ports (and thus not subject to the FMC's performance bond program)

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10/19/01	**American Classic Voyages** Co. ("AMCV"), the parent of American Hawaii Cruises, United States Lines, Delta Steamboat Co. and Delta Queen Coastal Cruises, filed for Ch. 11 bankruptcy in the D. Del. (Case No. 01-10954; www.deb.uscourts.gov), and all subsidiaries suspended cruise operations, except that the vessel Delta Queen apparently would continue to operate (see FMC Press Release No. 01-l 1, dated 10/19/01).[8]
01/30/02	**FMC Sunshine Meeting** discussion of the passenger vessel operator financial responsibility program (see Transcript).
02/14/02	FMC Press Release No. 02-03, announcing the posting of a "Notice to Cruise Passengers" on the FMC's Website, per the FMC's directions at the 1/30/02 Sunshine Meeting as reported in FMC Press Release No. 02-01, dated 1/3 1/02.
04/22/02	**FMC Dkt 94-06 discontinued,** per "Notice of Proceeding Discontinued," served 4/17/02 (effective upon Fed. Reg. publication) and published in the Federal Register (67 Fed. Reg. 19535; 4/22/02), per the FMC's direction to the Staff at the 1/30/02 Sunshine Meeting (see FMC Press Release No. 02-O 1, 1/3 1/02).
04/23/02	**FMC NPRM (FMC Dkt 02-07)**, published in the Federal Register, inviting comments on the proposed elimination of (1) self-insurance, and (2) the sliding scale for required coverage of UPR, by 5/23/02 (67 Fed. Reg. 19730; 4/23/02).
05131/02	Delaware North Companies, Inc.[9] completes purchase of The Delta Steamboat Co. and obtained issuance of a Passenger Vessel Surety Bond from the FMC on this date.
07/05/02	**FMC Final Rule** in Dkt No. 02-07, published in the Federal Register, effective 8/5/02 (67 Fed. Reg. 44774; 7/5/02).
10/31/02	**FMC NPRM (Dkt 02-15)**, proposing to revise Part 540 to (1) eliminate the $15M UPR ceiling, (2) exclude credit card charges within 60 days of sailing, and certain "partial ship" bookings from UPR, (3) change the UPR reporting requirement to quarterly, and (4) require ADR for resolution of passenger nonperformance claims not resolved within six months after submission, *inter alia*, and inviting comments, to include cost data as to the impact of the proposed changes, by 1/8/03, issued 10/24/02 and published in the Federal Register on 10/31/02 (67 Fed. Reg. 66352; 10/31/02).

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[8] The FMC's Press Release commented that AMCV participated in the P L. 89-777 as a self-insurer, and consequently no bond or other third-party instrument exists to satisfy passenger claims for UPR. The FMC recommended that passengers immediately file claims with any applicable credit card issuer or third-party travel insurance issuer, and otherwise with the Bankruptcy Court in Delaware.

[9] Delaware North, one of the world's leading hospitality and food service providers, is one on the largest privately held companies in the U.S., with more than $1 6B in annual revenues and over 25,000 associates serving millions of customers in the U S., Canada and the Pacific Rim

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12/20/02	FMC extended NPRM comment period to 4/8/03 (67 Fed. Reg. 79029; 12/27/02).
04/03/03	FMC further extended NPRM comment period to 5/30/03, and established procedure providing interested persons the opportunity to make oral presentations to individual Commissioners and stating the Commission's determination to hold a public hearing, at a date to be determmed, ant which interested parties may make presentations and field questions from the Commissioners (68 Fed. Reg. 17003; 4/8/03).
04/28/03	**Regal Cruises ceased operations (see** FMC Website Notices posted 4/30/03 and 5/16/03).
04/30/03	FMC issued a Notice, advising interested parties that the previously identified Public Hearing (see the preceding item) will be held on June 11, 2003, at a time to be set, and inviting parties wishing to participate to so notify the Secretary's Office by the close of business on May 28, 2003, providing a short, brief statement describing their position on the proposed rule (68 Fed. Reg. 23947; 5/6/03).
05/28/03	Due date for expressions of interest in participating in the proposed Public Hearing on the NPRM.
05/30/03	Due date for comments on the NPRM.
06/11/03	Scheduled Public Hearing date, to be held at the FMC in Washington, DC., at a time, and with an order of sequence, to be announced (see 68 Fed. Reg. 23947).

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Does it really matter

The Federal Maritime Commission is proposing to eliminate the \$15m ceiling on performance coverage required of passenger vessel operators calling at US ports including Puerto Rico and the US Virgin Islands. The deadline for comments on FMC's proposed rulemaking is April 8, 2003. Our personal view, as travel agents who sell a substantial number of cruises: Does the FMC bond really matter any more'?

The bond, which covers Unearned Passenger Revenue (UPR), will provide refunds to entities that have paid for future cruises on sailings calling at US ports on lines which do not provide the cruise or a refund. The bond does provide a degree of consumer protection, but has not covered all losses in bankruptcies of many cruise lines, including Regency and American Classic Voyages. Disbursement of claims has been a time-consuming process, often requiring years to complete.

Smaller cruise lines argue that the bond is unfair because they must cover a much larger portion of their UPR (often 100%) than larger lines, providing a perceived cost-advantage to larger lines. Elimination of the ceiling would even the playing field and provide additional consumer protection An alternative being considered is to adjust the ceiling upward as UPR Increases to cover the increased shortfall as cruise fleets grow.

It is interesting that, in the current age of government deregulation, the FMC bond has been untouched, and the current rulemaking proposes to expand it To our knowledge, this bond is the only federal program in the travel and tourism industry which specifically provides financial restitution to the traveling public. The federal government provides no protection for consumer losses to airlines, hotels, tour operators rental companies or travel agencies.

While many of our travel agency colleagues would take us to task for questioning anything that provides even minimal consumer protection without undue hardship to travel agents, we do not believe that the FMC bond plays a major role in either protecting our clients who purchase cruises, or in the decisions made by travel agents or travellers in the cruise sales process.

When purchasing any product or service that will only be provided weeks or months in the future, the use of a major credit card provides a high level of protection if the products or services are not received by the purchaser. While not required by law, credit card companies have reimbursed losses on defaulted cruise lines. Travellers can also purchase trip cancellation insurance that provides bankruptcy or default protection if they do not receive services or refunds.

The FMC bond is, at best, third-level protection for the consumer. Its existence is virtually unknown to all but the most sophisticated and knowledgeable travellers. We dare say that the vast majority of front-line travel agents do not know much about the bond, and most agency owners and managers do not give it much thought

At Belair Travel & Cruises, our sales agents strongly recommend that our clients use credit cards when we have even the slightest concern about a cruise line's financial condition. We also urge all clients, especially those paying with cash or check, to purchase trip cancellation insurance with supplier bankruptcy protection.

While the FMC bond might provide some additional coverage if its ceiling is Increased or eliminated, it is far from being a major issue for travel agents.

Phil and Doris Davidoff have been travel agents and owners and operators of Belair Travel & Cruises for more than 33 years. They are also principals of Davidoff Associates, Inc., an industry consulting firm. Philip served as president of the American Society of Travel Agents from 1990 to 1992. ❑

> **The FMC bond is virtually unknown to all but the most sophisticated and knowledgeable travellers**

Summary of NPRM Comments

1. **The NPRM:** The NPRM was published in the Federal Register on 10/31 (67 Fed. Reg. 66352). Comments initially were due on 1/8/03. The FMC subsequently extended the comments due date to 4/8/03, pursuant to the requests of various parties, by Order issued 12/20/02 and published in the Federal Register on 12/26 (67 Fed. Reg. 79029). The FMC further extended the comment due date to 5/30/03 on the FMC's own motion, by Order served 4/3, and published in the Federal Register on 4/8 (68 Fed. Reg. 17003).

2. **Comments:** As of May 23, 2003, there have been 12 comments on the Proposed Rule received from various interests including public port authorities (2), P&I Clubs (1), credit card interests (2), travel agent associations (2), individual travel agents (3), and individuals (2). In addition, two cruise lines – Royal Caribbean Cruises Ltd. ("RCL") and Norwegian Cruise Lines ("NCL") -- submitted comments addressing the rulemaking regulatory aspects of the proposed rulemaking. In addition, RCL submitted comments discussing the outcome and impact of the American Classic Voyages ("AMCV") bankruptcy proceeding. Most of the comments have focused on the proposed elimination of the ceiling of required Unearned Passenger Revenue ("UPR") coverage, but several have also addressed the mandatory Alternative Dispute Resolution ("ADR") proposal. The comments that have been filed to date are summarized briefly below:

American Association of Port Authorities ("AAPA") (3/28/03):[1/] AAPA expresses "***grave concern"*** about the proposed rule and specifically the proposed elimination of the $15M UPR coverage ceiling, which effectively would require the cruise industry to set aside up to $2.3B and exact "an ***undue, unwise andpotentially devastating impact*** upon an industry that annually generates some $20 billion for the U.S. economy while playing a significant role at many of our major seaports." AAPA notes the post 9/1 1 expansion of vessel deployments to new ports, and states that the negative repercussions of the Proposed Rule "would thus be widespread." AAPA ***"could understand a measured increase in the ceiling, perhaps over a phased-in period," but opposes total elimination of the ceiling,*** and notes that such would have a severe impact on the ability of cruise lines to invest in new ships and terminals, and that ultimately the increased costs would be passed on to consumers. ***AAPA also expresses "concern" about the mandatory ADR proposal,*** on the grounds that appropriate avenues already exist to resolve such issues, FMC jurisdiction is questionable, and implementation of the proposal would divert the FMC's limited staff from their traditional maritime regulatory role.

Florida Ports Council ("FPC") (4/1/03):[2/] FPC notes the continuing "dynamic growth of the [cruise] industry in Florida" in FY01/02 and resulting benefits to Florida's economy

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1/ AAPA and represents some 150 public port authorities in the U.S., Canada, Latin America and the Caribbean.

2/ FPC represents Florida's 14 deepwater seaports – Canaveral Port Authority, Port Everglades, Port of Fernandine, Port of Fort Pierce, Jacksonville Port Authority, Port of Key West, Manatee County Port Authority, Port

($3.0+B in direct expenditures and more than 101,000 jobs), and expresses ***"concern " about "any additional costs*** which may affect the industry's homeporting decisions," as well as create "additional barriers to market entry and growth," and "***urge[s]" the FMC to retain the current $15M ceiling.*** FPC also notes that ***"The cruise industry has a superior record of catering to the cruise passengers,"*** and that "Florida's Office of Consumer Affairs reports very few complaints related to the cruise experience – a result of the excellent response by the cruise industry to its customers."

International Group of P&I Clubs (the "P&I Clubs") (4/7/03):[3/] The P&I Clubs note that Section 3 non-performance is not a risk covered by the Clubs, but that guaranties have "been provided by the individual Clubs to their Members as a service, and only when the Clubs' Guaranty is fully secured by a Bank counter-guarantee." The P&I Clubs state that "The Clubs' authority to give such guaranties is currently limited to US$15 million," and that they "***do not believe that the Club Boards will agree to providing guaranties at the level proposed in the Notice of Proposed Rulemaking,"*** and "cannot make any commitment to the [FMC]" until the required UPR level of security over and above that covered by the FCBA is known. Much of the P&I Clubs' comments is directed to the Club's ***opposition to credit card companies having subrogation rights against the Section*** 3 ***coverage,*** and they cite several recent Court decisions rejecting such subrogation claims. The P&I Clubs interpret, and support, the NPRM as putting this issue to rest, and recommend the deletion of the last phrase in NPRM Footnote 8 "to ensure . . . the Commission's goal of having the Sec. 3 security available only for passengers, and not credit card companies." Finally, the P&I Clubs ***request that the FMC clarify the definition*** of ***UPR,*** and urge that such be narrowly construed and confined to "revenues directly connected to the water carriage," and not include "indirect costs such as airfares, hotel reservations, shore excursions etc."

Discover Bank and Discover Financial Services, Inc. ("Discover") (4/4/03):[4/] Discover ***"applauds*** the FMC's efforts to hold thinly capitalized cruise operators responsible for defaults in performance by . . . ***lifting the $15 million ceiling, " but "strongly objects" to the proposed exclusion of credit card purchases from UPR.*** Discover argues that such proposal (1) would unfairly discriminate against credit card users by depriving them of Section 3 protection, (2) would reduce the coverage provided by cruise lines, ultimately providing far less protection to consumers, and (3) would force credit card companies to subsidize cruise industry losses, contrary to the intent of Section 3. Discover states that the FMC has never previously referred to FCBA rights in connection with Section 3, and argues that nothing in the legislative history of either Section 3 (which places the responsibility on the cruise lines)

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of Miami, Port of Palm Beach, Panama City Port Authority, Port of Pensacola, Port St. Joe Port Authority, Port of St. Petersburg, and Tampa Port Authority.

[3/] The P&I Clubs consists of 13 mutual insurance organizations (Clubs) that provide coverage in relation to shipowners' liabilities to more than 90% of the world's ocean-going tonnage.

[4/] Discover Bank is the issuer of the Discover Card, while its affiliate, Discover Financial Services, Inc. enters into Merchant Services Agreements that enable merchants to accept, and receive settlement payments for, Discover Card transactions.

or the FCBA (which makes credit card companies the payor of last resort) supports the FMC's suggested rationale.[5/] Discover argues that the "FMC has ***no regulatory jurisdiction*** under the FCBA," and "no statutory mandate to authorize a marshalling of statutory consumer rights in a manner that subsidizes the cruise line industry at the expense of credit card issuers." Discover argues that this proposed shift of responsibility ***exceeds the FMC's rulemaking authority and should be left to the courts or Congress.*** Discover further suggests that ***"unintended consequence[s]"*** of the FMC's proposal may be (1) ***"higher costs and fees to merchants and consumers*** as a result of the increased credit risk associated with the cruise industry," and (2) that ***"cruise operators will be unable, or unwilling, to enter into merchant agreements with credit card companies,"*** most negatively impacting smaller cruise operators and new entrants, adversely impacting competition and ultimately leading to higher passenger fares.

Visa USA Inc. ("Visa") (4/24/03): Visa essentially echoes the Discover comments, but goes further in openly urging the FMC to extend the same full protection to all cruise line ticket purchases, regardless of the method of payment. Specifically, Visa ***"supports lifting the $15 million ceiling," but "strongly objects" to the proposed exclusion of credit card purchases.*** Visa asserts that "The Proposed Rule seeks to force federally insured financial institutions to subsidize the cruise line industry." Visa argues that this, in turn, would force financial institutions, on their own and with the likely encouragement of federal banking regulators, to take steps to protect themselves under the Proposed Rule, which could have further adverse impacts on the sales and liquidity of troubled cruise lines. Visa argues that the FMC's proposal wrongly equates federally insured financial institutions issuing credit cards with insurers who knowingly underwrite cruise line risks, and states that "It is both arbitrary and capricious for the FMC to attempt to discharge its responsibility for overseeing the financial responsibility of cruise lines by requiring innocent third parties in the form of insured financial institutions, and ultimately the United States Government, to assume risks due to failure of cruise lines to meet their obligations." ***Visa argues that credit card issuers should enjoy the same benefits of Section 3 as individual cruise line customers, and urges the FMC to modify the Proposed Rule "to provide security for all purchases of cruise line tickets, regardless of the method of payment."*** Visa states that the Proposed Rule would create a "strong incentive to cease providing credit card services to troubled cruise lines," or at least "to defer the availability of funds to the cruise lines, . . . exacerbating the financial difficulties of already troubled cruise lines.

Travel Industry Association of America ("TIA") (4/2/03):[6/] TIA states its concern as to the potential harmful implications of any changes to federal regulations governing travel and tourism that may affect the industry's recovery from 9/11 and the economic downturn that followed. TIA notes that the present rule has worked well, and states that the continuing

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[5/] Discover is not entirely correct in this regard, as the FMC has consistently directed passengers who used credit cards or bought third-party insurance to immediately file claims with their credit card companies or insurers in past cruise line failures. *See, e g* , the FMC's "Notice to Cruise Passengers," at pg. 3 (2/14/02).

[6/] TIA has 2,100 member organizations in the travel and tourism industry.

health of the very substantial PVO's with substantial assets, all of whom have maintained the required coverage and none of whom has failed to make good when unable to perform a voyage, is critical to the health of the overall travel industry. TIA is concerned that the ***proposed elimination of the $15M ceiling would cause substantial harm*** to the industry, by requiring these companies to provide a dollar-for-dollar financial guarantee. TIA describes this effectively as being terrorism insurance, which is not required of any other industry and was not contemplated by Congress in enacting Section ***3*** in 1966. ***TZA urges the FMC, "To the extent it feels compelled to adjust the cap for the benefit of the traveling public, . . . to do so in a way that would not precipitate the very harm it seeks to avoid." TZA also expresses concern over the ADR proposal,*** stating that "Given the efforts to which members of our industry voluntarily go in an effort to address passenger complaints, we see no reason to force them to participate in an alternative dispute resolution process as a condition of sailing."

American Society of Travel Agents ("ASTA") (3/17/03): ASTA states that ***the Proposed Rule should be revised to "more accurately reflect the PVO's level of exposure,"*** and asserts that ***'Consumers would benefit from a coverage requirement that is more directly correlated to the number of berths operated by a PVO*** and therefore its UPR." ASTA urges that the Proposed Rule be revised to reflect "this principle."

Bryan's Travel, Inc., Portage, Ind. (11/11/02): Mary Jo Bryan, the owner of Bryan's Travel, Inc., a small travel agency in Northwest Indiana, ***supports "more consumer protection"*** and urges the FMC to "include protection for agents and consumers" in its proposed action. She notes that, as a small travel agency owner, she had to obtain a bond before opening her business 11 years ago, and states that when a company goes out of business or files for bankruptcy, there is nothing to protect the travel agent. She cites the example of the bankruptcy of National Airlines and National Vacations, which she says not only cost her $500, but also the loss of a client as a future customer. She does not cite any instance involving a cruise line.

Philip G. & Doris S. Davidoff, Davidoff Associates, Inc. (4/7/03):[7/] The Davidoffs ***oppose*** the proposed ***elimination of the ceiling,*** arguing that (1) there is no justification for the proposed changes, the burden of which would fall on the four largest companies that are all publicly-held major companies, that are required to regularly disclose financial information and "have only the most infinitesimal possibility of failing to perform or refund UPR," (2) the proposed costs outweigh the potential benefits, and would effectively impose a new federal government tax of $10/person/day, for virtually no value, and (3) adequate consumer protection already exists through credit cards and third-party insurance. The Davidoffs suggest that ***"The FMC bond, is at best, third-level protection for the consumer,"***

7/ The Davidoffs have been travel agents and the owner of Belair Travel & Cruises for more than 33 years, and also are the principals of Davidoff Associates, Inc., an industry consulting firm. Philip Davidoff served as president of ASTA from 1990 to 1992. Doris Davidoff is a former trustee of the Institute of Certified Travel Agents. They recently co-authored an article, cited in their comments, which appeared in the March 2003 issue of *Seatrade Cruise Magazine*, entitled "Viewpoint – The FMC Bond – Does It Really Matter?"

and is "an anachronism" that is counter to the current age of government deregulation and should be eliminated. The Davidoffs further assert that the ***ADR proposal provisions are "unneeded,"*** stating that "Cruise lines handle their problems very well," and that "The receipt of fewer than 200 general consumer complaints from seven million cruise travelers is hardly a situation worth regulating." They comment that this is not a FMC responsibility, and "appears to be a way of creating or protecting jobs in a government bureaucracy with a view toward solving problems that do not exist."

Kathi Sherburne (4/23/03): Ms. Sherbume apparently is a part-time travel agent who booked a 25-person group cruise on Royal Caribbean International ("RCI") for her brother (Joe Childers), which cancelled due to 9/1 1. She asserts there were problems with the rebooking, which was cancelled due to failure to pay a $200 booking fee, and that RCI is now imposing unreasonable restrictions on offered vouchers for a future cruise and is refusing to refund some $12,553. She claims she lost some $1,700 in commissions, and is out an additional $1,000 for costs on this matter since November 2001. She ***urges that "A U.S. Government agency (FMC??) must oversee and have authority over these rogue companies, " including the authority to fine the cruise lines, and force them to make refunds and reimburse costs.***

Kirk R. Bryson (11/18/02): Mr. Bryson and his wife, of Delray Beach, FL, reportedly lost $751 in connection with a required "cash only" deposit for a cruise on Commodore Cruise Lines' Crown Dynasty out of Aruba.[8] He tiled a claim with the Bankruptcy Court in 2000, but now has been advised to get a lawyer and go after Commodore himself, which he describes as "A fools errand to be sure." He ***requests that the Proposed Rule include a provision making it unlawful "for any cruise line to refuse legitimate credit cards."***

John J. Krause (1/3/03): Mr. Krause apparently lost a replacement cruise award when Regency Cruises went bankrupt in 1995, and, after filing extensive claim documents, was told that the fund most likely would be depleted before any passenger claims could be honored.[9] He asserts that ***"The current $15M bond limit is much too low to provide any protection for cruise line passengers,"*** and incorrectly asserts that "The recovery rules for this bond place consumers last in the line of those who receive any compensation for failure of a provider."[10] He also argues that seeking arbitration or any other legal remedy is impractical so long as the action must be filed in the cruise line's home venue. He states that

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8/ Due its origination from a point outside the U.S., this travel was not covered by or subject to the FMC's Section 3 program.

9/ It is unclear from the comments whether this claim was submitted under the Section 3 performance bond, administered by Freehill, Hogan & Mahar, or to the Bankruptcy Court. However, Mr. Krause's comments suggest that he incorrectly pursued the latter. We understand that the Section 3 performance bond generally was sufficient to cover all claims.

10/ This last statement is incorrect with respect to the Section 3 bond, which exists solely to provide reimbursement to individual passengers. Moreover, it also would appear to be incorrect in the bankruptcy context, in view of the priority for consumer deposits.

a mechanism should be available whereby complaint actions could be pursued with an agency such as the FMC.

Royal Caribbean Cruises Ltd. ("RCL"): RCL has made three submissions to date, (i) submitting comments on the rulemaking regulatory procedural issues, (ii) requesting a 90-day enlargement of the comments period, and (3) reporting on the AMCV bankruptcy proceedings outcome. Each of these comments contains material addressing certain of the substantive issues. The regulatory rulemaking comments, submitted 12/2/02, discuss the history of the Section 3 program and perceived impacts of the Proposed Rule. ***RCCL urges the FMC, "as a matter of reasoned decisionmaking and sound discretion, to carefully assess all costs and benefit of the Proposed Rule and any available regulatory alternatives before proceeding with the Proposed Rule." RCCL also challenges the FMC's regulatory burden estimate, and argues that the Proposed Rule is unnecessarily burdensome*** in its tracking and reporting requirements, particularly with respect to the new requirement to track credit card revenues, as well as being unduly vague as to what constitutes UPR.

Norwegian Cruise Lines ("NCL"): NCL has made two submissions to date, (i) submitting comments on the rulemaking regulatory procedural issues, and (ii) requesting the 90-day comment period time enlargement. The first comments, submitted 12/2/02, focus on the ***paperwork burdens*** incident to the Proposed Rule, including a detailed discussion of the burdens necessary ***to complete the application form and vessel schedules, and comply with the various reporting requirements.*** NCL further points out that ***the FMC has not even purported to address, much less quantify, the burdens incident to the new proposed mandatory ADR process.***

3. **Other Comments**: In addition to the above, several other parties requested an enlargement of the comment period, but have not yet submitted substantive comments on the NPRM. These parties include (1) Cruise the West,[11] (2) the Port of San Diego, (3) Disney Cruise Lines, (4) Crystal Cruises, and (5) the House Committee on Transportation and Infrastructure.

4. **Next Stew**: Comments on the Proposed Rule are required to be submitted by May 30, 2003. In addition, the FMC has scheduled a Public Hearing on the Proposed Rule for June 11, 2003 (68 Fed. Reg. 23947, 5/6/03). Interested parties must submit expressions of interest, including identifying the proposed areas of comment, to the FMC by no later than May 28, 2003. The FMC will then notify interested parties as to the time allowed and order of presentation.

11/ Cruise the West is the association of West Coast cruise ports.

from governmental interference. Thus, competition, both actual and potential, may be expected to curtail the sort of problems CSA envisions.

We are now satisfied that the exemption will not substantially impair effective regulation by the Commission, be unjustly discriminatory or detrimental to commerce. Indeed, Tropical is now in much the same position as the carriers that have been granted similar exemptions in other trades. *See Matson Exemption* and *Sea-Land Exemption*. Accordingly, the Commission will reconsider its March Order and grant Tropical's Application for Exemption.

Although the Commission, as an independent regulatory agency, is not subject to Executive Order 12291, dated Feb. 17, 1981, it has nonetheless reviewed the rule in terms of this Order and has determined that this rule is not a "major rule" as defined in Executive Order 12291 because it will not result in:

(1) an annual effect on the economy of $100 million or more;

(2) a major increase in costs or prices for consumers, individual industries, Federal, State, or local government agencies, or geographic regions; or

(3) significant adverse effects on competition, employment, investment, productivity, innovations, or on the ability of United States-based enterprises to compete with foreign-based enterprises in domestic or export markets.

The FMC certifies, pursuant to Section 605(b) of the Regulatory Flexibility Act, 5 USC §605(b), that this rule will not have a significant economic impact on a substantial number of small entities, including small businesses, small organizational units and small government jurisdictions.

List of Subjects in 46 CFR Part 550:

Maritime carriers; Reporting and recordkeeping requirements.

Therefore, pursuant to 5 USC §553, Sections 18, 35 and 43 of the Shipping Act, 1916, 46 USC App. §§817, 833a and 841a, and Section 2 of the Intercoastal Shipping Act, 1933, 46 USC App. §844, Part 550 of Title 46, CODE OF FEDERAL REGULATIONS, is amended as follows: [see SR Current Service ¶322:11 -- ¶ NOTES]

FMC
Fact Finding
Investigation No. 19

PASSENGER **VESSEL** FINANCIAL **RESPONSIBILITY** REQUIREMENTS)) **Dated: April 11.1991**

[600:3, 601:51, 601:53, 601:55, 601:59] Report on cruise line responsibility requirements.

Commissioner Francis J. Ivancie reports on the state of the cruise industry as part of the FMC's review of 46 CFR Part 540, Subpart A. The Commissioner recommends that the current ceiling of $15 million for insurance, escrow, guaranty or surety bonds be retained; that the FMC's self-insurance rules be liberalized; that a sliding scale formula be considered; that seasonal variation& past experience, end other related factors be considered in setting individual insurance ceilings; that Congress be notified of the void in regulation of air-sea packages, foreign-to-foreign cruises, end day cruises; and that the FMC's regulations be reviewed to promote realistic use of all available alternatives. Passenger Vessel Financial Responsibility Requi[redacted], 25 SRR 1475 [FMC, 1991]

REPORT TO **THE** COMMISSION

Commissioner Francis J. Ivancie.

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Introduction

On Aug. 17, 1990, the Federal Maritime Commission ("Commission' or "FMC") authorized Fact Finding Investigation No. 19 *[25 SRR 1023]*. The purpose of this proceeding is to collect and analyze information to establish a sound basis for review of current FMC regulations at 46 CFR Part 540, Subpart A, on the financial responsibility of passenger vessel operators.

In Docket No. 90-01 the Commission lifted the $10 million ceiling for insurance, escrow, guaranty or surety bonds that passenger vessel operators had to post with the Commission. The Commission determined that the ceiling should be raised to at least $15 million in view of inflationary pressures, greater number of passengers and the increased volume of unearned passenger revenues collected.

This Investigation was authorized as a means of ascertaining whether additional changes in our regulations were warranted. The Commission is very concerned that the passenger public be adequately protected against nonperformance, but the Commission likewise does not want to unduly burden the industry. Before considering any additional changes to our regulations, however, the Commission deemed it appropriate to develop a record of the changes in the cruise industry since the enactment of P.L. 89-777, 46 USC App. §817e.

The Investigation addressed how the Commission may best implement its statutory authority and responsibility to fairly and adequately ensure the indemnification of the public in the event of nonperformance of a passenger vessel operator. It obtained evidence concerning the financial transactions and operations relating to unearned passenger revenues, The Investipation also studied procedures and practices employed by passenger vessel operators to demonstrate to the FMC their financial responsibility. and alternative approaches and procedures which may meet the statutory objective of providing the passenger public security against nonperformance. The Investigation also considered possible recommendations for legislative improvements to Section 3 of P.L. 89-777.

A Notice of Hearings was issued on Oct. 19, 1990. Hearings were held in New York, on Dec. 5, 1990. in Miami, on Dec. 12, 1990, and in Los Angeles, on Jan. 16, 1991. Extensive testimony was elicited from all areas of the passenger vessel industry, including members of the financial and insurance communities.

The Notice of Hearings also listed fourteen questions that covered a wide range of topics relevant to this Investigation. All parties submitted written responses prior to the hearings and were allowed to supplement their statements verbally at the hearings. The evidence in the record has enabled the undersigned Fact Finding Officer to make the following findings of facts and recommendations to the Commission:

The State of the Cruise Industry

The nrowth of the North American passenger cruise industrv is nothing short of spectacular. In 1970 half-a million passengers took cruises an vessels embarking from U.S. ports. Last year, there were three million seven hundred thousand such passengers.

The cruise industrv evolved from the mere carriage of passengers to the complex provision of entertainment, sightseeing and luxurvoyages. During the 1960s. the passenger cruise industry was in its infancy. Converted ferry ships and older trans-Atlantic vessels were the vessels used in the trade. Now there are newer ships specifically designed for the passenger cruise industry. There are air, land and sea packages offered to the public, and there are a variety of cruises, ranging in duration from three to over eighteen days.

The average growth rate of cruise passengers during the past decade was 10.3%. The passenger cruise industry spends over 5400 million a year in mass marketing alone. Over 95% of all cruises are sold by travel agents. who receive the initial deposits and the subsequent full fares from the passenger public. Although travel agents are responsible for forwarding these funds to the operators, our regulations prescribe at 46 CFR §540.9(k) that principals are responsible for "any unearned passage money or deposits in the hands of its agents or of any other person or organization authorized by the certificant to sell the certificant's tickets."

Of the 161 passenger ships in existence in the world, 123 ships, or 76.4% of the tota' serve the North American market. The cruise ships that ply the North American market have 84,887 berths, which is 85% of the worldwide berth capacity. There *are* 46 cruise lines operators that have established evidence of financial responsibility with the Commission in the event of nonperformance. The existina coverage at the Commission is S258 million. Sixty-five percent of the operators use coverage with Protection and Indemnity Clubs ("P&I Clubs") based in London, Scandinavia and Bermuda.

The passenger cruise industry has prepared for the expected continued increase in the number of passengers. During the last decade, there was an average growth rate of 7.5% in new berths. This pattern of new construction is expected to continue at least for the next five years, where there will be about 106,000 berths by end of 1994.

There are significant differences in the structure and passenger capacity of passenger cruise operators. American Hawaii Cruise Lines ("AHC"), for example, is the only American-flagged ocean-going cruise line in the North American market. AHC operates the SS CONSTITUTION and the SS INDEPENDENCE. two medium-size ships, with a capacity of 800 berths per ship. Many of the foreign-flagged cruise operators utilize large ships with substantially higher passenger-carrying capacity. AHC therefore does not enjoy the economies of scale of foreign-flagged cruise lines. It is large enough to file the $15 million ceiling, but not large enough to offset these costs as other foreign-flagged cruise operators. In addition, AHC cannot offer gambling on board. *See* 15 USC §1175 and 18 USC §7. Ironically, although this company has all its assets in the United States, it cannot take advantage of the self-insurance option that our regulations presently prescribe at 46 CFR §540.5(d). This section requires, among other things, that in order to qualify as a self-insurer, the operator's net worth and working capital, which must be in the United States, must be sufficient to cover the unearned passenger revenue exposure. Because of the capital intensity of the cruise industry, it is highly unlikely that the industry would take advantage of this alternative. We will discuss this provision in our section dealing with recommendations to the Commission.

In spite of the growth of the cruise industry, there have been failures during the past twenty-five years since enactment of P.L. 89-777. For example, four cruise lines have recently gone out of business. These were Aloha Pacific Cruises? American Cruise Lines, Exploration Cruise Lines and Great Pacific Cruises. In all of these instances, the evidence of financial responsibility was sufficient to cover all passenger claims for [redacted]

Large operators have bought out smaller ones, thus making the industry somewhat more financially stable. For example, Carnival Cruise Lines owns Holland American Lines, Cunard acquired Sea Goddess, and P&O purchased Princess Cruise Lines. It is possible that if a cruise line encounters financial difficulties, the parent organization may be able to rescue it. On the other hand, if the parent entity become insolvent, then the cruise line may not be able to survive, even though standing alone it may be a profitable company.

The testimony in the record reveals that passenger cruise operators generally successfully resolve any customer claims or disputes concerning nonperformance. For example, in 1989, when hurricane Hugo ravaged the Eastern Caribbean, Royal Caribbean Cruise Lines cancelled a sailing. The company fully refunded all passenger deposits, including those belonging to passengers who were already taking a cruise in the Caribbean. The company offered a twenty-five percent discount on any future cruise or a five-hundred dollar credit on any subsequent cruise. All travel agent commissions were honored even though the cruise was cancelled. This incident is typical of the behavior of the cruise industry. The operators are very aware that a reputation is a valuable asset, and they seem to be willing to go beyond what is legally required to make sure that their passengers are satisfied.

Unearned Passenger Revenues

The Commission's regulations, at 46 CFR §540.2(i), define unearned passenger revenue as "passenger revenue received for water transportation and all other accommodations, services. and facilities relating thereto not yet performed. The Commission's regulatory scheme is designed to assure that a cruise line's unearned passenger revenue be adequately protected in the event of nonperformance of the transportation. Therefore, the Investigation inquired into the cruise industry's practice concerning the receipt and disbursement of these funds.

The passenger cruise industry practice is to collect an initial deposit usually ninety days before sailing, This deposit ranges between $100 and $250. Then, the remaining amount due is collected sixty to thirty days before departure. The reason for this practice is manifold. The cruise operators want to make sure that passengers will show up and take the cruise they have booked. Because it is difficult for an operator to fill a ship at a moment's notice, the industry wants to assure that the passengers are sufficiently committed to the sailing. Also, a cruise operator must make a number of purchases for such matters as airline tickets, hotel rooms, rental cars, food, fuel, and other supplies. These purchases are paid in advance of a sailing.

Because the passenger cruise industry operates with fixed costs, it is the industry's practice to use most of its cash reserves to pay current expenses and to pay down existing debt. It is more advantageous for the industry to pay down capital loans and lines of credit than to deposit funds to eatn interest. Therefore, cruise lines do not deposit their unearned passenger revenues in interest-earning accounts. They use those funds as working capital.

The amounts of unearned passenger revenue vary from company to company. Carnival Cruise Lines, which is a publicly traded company, and is the largest cruise company in the world, holds, depending on the season, anywhere from $120 to $200 million in unearned passenger revenues. On the other hand, thirty-four operators have evidence of financial responsibility below our current $150 million ceiling. Many operators hold unearned passenger revenues well in excess of our current $15 million ceiling. Yet, there are certain smaller cruise lines, like AHC, which are big enough to barely reach the $15 million ceiling, but small enough to be substantially below the other operators* amount of unearned passenger revenues. AHC's bond, for example, on a per passenger basis, translates to a coverage of $9,375, which is substantially higher than Carnival's coverage.

This means that our regulations impact the industry differently, according to the operator's size. For example, an operator with a level of unearned passenger revenues of 5200 million provides a smaller coverage per passenger than a cruise operator with substantially lower unearned passenger income. Since the current $15 million ceiling applies equally to all operators, the Commission in effect has created a sliding scale to protect the public.

Security Pacific National Trust Co. (hereafter referred to as "Security Pacific") perhaps expressed it most eloquently when it stated at p. 3 of its Nov. 15, 1990 submission that

> A large cruise line that maintains a $15 million bond but generates sales in excess of $15 million is providing partial protection to the consumer. A cruise line with sales below $15 million is mandated to maintain protection at 110% of its highest unearned revenue. Such a cruise line is

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required to protect its passenger deposits 51.10 for each $1.00 deposited, while the cruise line that generates $30 million in sales is required to protect only f.50 of each consumer dollar.

This creates a two tier protection for consumer deposits; one for cruise lines with sales below $15 million and one for cruise lines with sales above S15 million, and this could possibly place some of the cruise lines at a sales disadvantage (costs).

During the course of the Investigation, several proposals were made concerning the advisability of setting a sliding scale mechanism. The testimony presented by the cruise industry opposed increasing the current ceiling because in their view there are no compelling reasons justifying the increase. The proposals, however, urge the Commission to consider an operator's past history, its record of performance and other relevant matters. These proposals will be discussed below. Before doing so, however, it is important to consider the legislative history of P.L. 89-777.

Legislative History of **P.L. 89-777**

P.L. 89-777 was enacted in response to certain shipping incidents that took Ie. On in the 1960s Aug 14 1964, 350 passengers were left stranded in the port of New York when the voyage of the MS RIVIERA PRIMA was cancelled. Two weeks before, another vessel, the 38-year-old Panamanian-flag cruise ship SS YARMOUTH CASTLE also cancelled its scheduled departure. Most of the passengers had paid their fares in advance and had no recourse to recover their money since the charterers of the vessels had either disappeared or spent the fares paid by the passengers. Later, on Nov. 13 1965 the SS YARMOUTH CASTLE caught fire during a Caribbean cruise. All passengers had to abandon ship, and' 90 people were killed during this disaster. On April 8, 1966, the Norwegian-flag cruise ship MS VIKING PRINCESS also caught fire, and the crew and passengers abandoned ship. Luckily there were no casualties in that incident. In all of these instances, we should note, the vast majority of the passengers were American citizens.

The 1965 hearings on H.R. 10327. which became, with certain modifications, P.L. 89-777, elicited testimony from a number of public officials, including the Coast Guard, Department of State, Maritime Administration, Federal Maritime Commission and officials of American and foreign passenger lines. See *Coastwise Cruise Regulations: Hearings before the Subcommittee on Merchant Marine of the House Committee on Merchant Marine and Fisheries.* 89th Congress, 1st Session (1965), hereinafter referred to as "House Hearings."

The need for the legislation was explained in House Report No. 1089, 89th Congress, 1st Session (1965). The Report states the following at p. 2:

> In recent years there has been a significant and substantial increase in ocean cruise traffic generated from U.S. ports. These ocean cruises operate primarily off the eastern seaboard of the United States to the Caribbean during the winter season, commencing in October. Both special and regular cruises to the Caribbean have increased rapidly in the past 6 years. The forecast for 1965-66 is more than double the sailings that were made in 1960-61. There is every indication that it will continue t crease. There are indications, also, that cruise traffic is commencing to be generated from Pa coast ports.
>
> This ocean cruise traffic from U.S. ports has attracted numerous steamship operators and charterers who experience a decline in traffic on their regular liner services during the cruise season. Most of these operators are responsible firms. Unfortunately, the traffic has attracted also a number of operators of questionable financial responsibility, operating aging vessel: with lower safety and sanitary standards. This has resulted in several instances where scheduled cruises were suddenly cancelled by the cruise operators at the last moment. Passengers have been left on the dock, and have lost passage moneys which they have paid. In a few cases, there have been complaints of inadequate sanitary facilities, or substandard safety provisions.

The then Chairman of the FMC, Admiral Harllee, testified as follows, at pp. 70 and 71 of the House Hearings:

> H.R. 10327 . . . goes to the protection of the public from irresponsible charterers of ships. We do not think that either the American-flag lines, such as United States Lines or Grace, or the foreign lines like Cunard or Holland-America, need to submit any bonds, because there is no record of defaulting problems with them. To make them have to license themselves in the matter of financial defaulting would be clearly overregulation.
>
> . . . . . .
>
> The actual record as far as the complaints with us . . . indicates a very small amount of trouble. Lines that offer cruises for American passengers are generally reputable and financially stable. This legislation is designed to give a cruise operator using a chartered vessel an element of financial responsibility which can be tapped should the cruise be cancelled.

The initial distinction between owners and charterers was eliminated by Congress. The Committee on Merchant Marine and Fisheries stated that ". . . There was some conflict in testimony before the committee as to how long the charterer would be in possession of passage moneys before turning such moneys over to the vessel owner. Therefore, to insure recourse for aggrieved passengers, the committee made the bill applicable to owners and charterers alike." See House Report No. 1089, 89th Congress, 1st Session, p. 4 (1965).

Therefore, Chairman Harllee's comment that there was no need to bond responsible operators is no longer applicable. There is no longer any distinction between well-known cruise lines and start-up operators. However, this does not mean that Congress intended unlimited bonding.

The purpose of Section 3 of P.L. 89-777 was perhaps best explained in Senate Report No. 1483, 89th Cong. 1st Session, 1966 U.S. Code Cong. & Admin. News 4176, 4182 as follows:

> Section 3 of the bill contains the major provisions of the original House bill, H.R. 10327. It is directed toward indemnification of passengers when the owner or charterer fails to provide the transportation purchased. It prohibits any person from arranging, offering, advertising, or providing passage on vessels having berth or stateroom accommodations for 50 or more passengers and embarking passengers at U.S. ports unless there has been established, to the satisfaction of the Federal Maritime Commission, that sufficient funds are available, by bond or otherwise, to indemnify passengers for nonperformance. If a bond or other security is used, it must equal the estimated total revenue for the particular transportation.
>
> This section provides for the filing of evidence of financial security or in the alternative a copy of an acceptable bond or other security because many persons operating in the cruise business are responsible and maintain sufficient assets in this country which could be proceeded against. Also, the committee took cognizance of the fact that since most American passengers vessels operate under operating-differential subsidy contracts, these American-subsidized operators already file evidence of financial responsibility with the Maritime Administration in the form of financial reports (form MA-172). The Federal Maritime Commission would have access to these financial reports.

The question that arises in connection with Section 3 of P.L. 89-777 is whether Congress intended a dollar-for-dollar coverage. Section 3(b) lends some credibility to this view. That section reads as follows:

> If a bond is filed with the Commission, such bond shall be issued by a bonding company authorized to do business in the United States or any State thereof, or the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands or any territory or possession of the United States ***and such bond or other security shall be in an amount paid equal to the estimated total revenue for the particular transportation.*** (Emphasis added.)

However, Congress envisioned two options "the filing of evidence of financial security or in the alternative a copy of an acceptable bond or other security because many persons operating in the cruise business are responsible and maintain sufficient assets in this country which could be proceeded against." See Senate Report No. 1483, 89th Congress, 1st Session, 1966 U.S. Code Congressional & Administrative News, at 4182.

Clearly, the Commission does have the discretion of determining what is an acceptable level of financial security against the risk of nonperformance. In fact, the statute essentially requires that the Commission be satisfied that a cruise operator is financially secure. Bonding appears to be a secondary option in the event that an operator is not financially secure.

One possible interpretation of Section 3 of P.L. 89-777 is that Congress contemplated two types of bonds or instruments of financial responsibility. The first one is found in Section 3(a). It comes into play when the passenger vessel operator fails to establish its own financial responsibility. If the operator fails to furnish adequate evidence of financial responsibility, then the operator must file ". . . in lieu thereof a copy of a bond or other security, in such form as the Commission, by rule or regulation, may require and accept, for indemnification of passengers for nonperformance of the transportation." The Commission has the authority to relieve an operator from posting a bond or other security if the operator has established its own financial responsibility. Commission regulations, however, do not make any provisions for excusing passenger vessel operators from the security requirements on the basis of supplying financial information.

As mentioned earlier, Section 3(b), on the other hand, requires that if a bond or other security is filed with the Commission, it must be ". . . in an amount paid equal to the estimated total revenue for the particular transportation." The Commission has never required that the bond or other security equal the total unearned passenger revenue. The Commission, although authorized to impose this dollar-for-dollar requirement, has not felt the need to enact it because market conditions did not warrant it. Instead, the Commission has imposed the bonding requirements contained in Section 3(a).

The Commission has always interpreted Section 3 as mandating a reasonable ceiling on the size of the security required of a cruise operator. Originally, the ceiling was placed at $5 million. This was increased to $10 million in 1980 (45 FR 23429, April 23, 1980), and this ceiling was subsequently raised to its present amount of $15 million by Docket 90-01 (55 FR 34564, Aug. 23, 1990). The Commission has consistently interpreted the statute as requiring financial responsibility, not financial guaranty. The Commission has also recognized that a dollar-for-dollar bonding requirement would unnecessarily increase an operator's cost of doing business. *

In the twenty-five years since enactment of P.L. 89-777, there have been relatively few passenger cruise operator bankruptcies, and as mentioned before in this report, in each case, the existing evidence of financial responsibility was more than adequate to cover potential passenger claims. If the Commission were to require a dollar-for-dollar coverage for insurance, escrow, guaranty, or surety bonds, it would be departing from its established golicv with no reasonable justification. Costs would be raised and the individual passenger's protection would not necessarily be increased. *

Protection and Indemnity Clubs

Sixty-five percent of the cruise operators certified with the Commission have coverage with Protection and Indemnity Clubs. These are self-insurance-type pools operated on a non-profit basis, whereby shipowners mutually protect and indemnify each other. The coverage provided includes collisions, hull damage. pollution claims and casualty.

These clubs insure over 400 million gross registered tons. This represents over 59% of the total world fleet. The clubs have assets in excess of S2.25 billion. P&I Clubs have their own reinsurance package so that any claim is covered for well in excess of $1.5 billion. Claims beyond the amouot would in turn be covered by a call on the membership of the club. The insurance limits have been reached only in the case of the EXXON VALDEZ oil spill, where the P&I Clubs paid $400 million.

Cruise ships represent less than half of a percent of the P&I Clubs' business. Cruise ship operators participate in the P&l's liability reinsurance protection. In 1970, in response to P.L. 89-777, P&I Clubs agreed to provide coverage for Sections 2 and 3 of the statute. Section 3 is the object of this Investigation. Section 2 provides certain financial responsibility requirements in the event of casualty.

P&I Clubs agreed to provide P.L. 89-777 coverage as an accommodation to the cruise operators. In the case of nonperformance, the P&I Clubs reauire that each cruise operator orovide an unconditional letter of credit to the Club in order to reimburse the Club in the event any claims are filed against the Club's guarantee,

The Commission requires, at 46 CFR $540.9(d), that any ". . . securities or assets accepted by the Commission (from applicants, insurers, guarantors, escrow agents, or others) under the rules of this subpart must be physically located in the United States." Therefore, P&I Clubs set up a trust fund in the United States in order to assist cruise line operators in complying with our regulations.

Some P&I Clubs provide Section 3 coverage at a nominal cost to the cruise operators. Others do not charge anything for this service. There are many reasons for this. One is that P&I Clubs provide the cruise operators' other insurance coverage, from which they derive their regular income. Another is that letters of credit remove the P&I Clubs' risk.

Escrow Account

Security Pacific suggested that the Commission consider eliminating the current $15 million ceiling because in its opinion not all consumers are protected equally with our present arrangement.

Security Pacific proposed the escrow account avenue. They stated at p. 3 of their Nov. IS, 1990 submission, the following:

> administratively the Commission should provide greater acceptabilty of escrow arrangements. With a 'flow through' escrow arrangement 100% of deposits received for future sailings would be placed in escrow on a 'per sailing' basis and not released until notification to the Depository Bank that the respective sailings were completed. With such an arrangement the 110% rule could be waived because passenger deposits would be 100% protected as intended by P.L. 89-777.

Security Pacific supplemented its written submission by testifying at the New York and Los Angeles hearings. Their position is that an escrow arrangement would be practical because of computer links. Passenger deposits would be logged by modem transmission, and as cruises are completed. the funds would be released to the cruise operators.

The escrow agent would place these funds in safe investments. Security Pacific would also recommend establishing a small bond to cover possible future passenger complaints regarding cruises already completed.

Security Pacific has 20 years of experience in managing escrow accounts for airlines, tour operators, wholesalers, cruise lines, hotels and air and sea cruises. Their nine top accounts have a cash flow of S186 million. Presently Security Pacific is marketing the concept to cruise line operators. At the time of the Los Angeles hearing, Security Pacific had entered into a new escrow agreement with a passenger cruise line, which was going to be filed with the Commission.

The cruise lines' reaction to Security Pacific's proposal was negative. All the cruise lines that participated in this Investigation indicated that the escrow arrangement is unnecessary and costly. Princess Cruises' opposition to the *escrow* approach was perhaps the most exhaustive. Among the reasons given are the following:

> If a cruise company is compelled to deposit all passenger payments in an escrow account, all of this portion of the company's working capital would be unavailable before sailing. The company would then be forced to borrow an amount equal to the escrowed amount to replenish its working capital. For P&O this would result in borrowings of $100-150 million. If we assume that the escrowed funds earned 7½% and the new borrowing cost 10%, P&O would incur an unnecessary interest expense of Over S3 million annually. At the end of 1991 P&O's 10,050 beds will

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represent 10.8% of the industry beds projected by CLIA to be 93,106. If we straight line project the mdustry requirement based upon P&O we see that the industry would need to borrow between $1 and $1.5 billion dollars and would incur an additional annual interest expense of over $30 million. These costs will ultimately be borne by the cruise passenger.

. . . . . .

The administration of an escrow would be costly and cumbersome for both the cruise line and the travel agent community. To be assured that all funds were placed into escrow, the travel agent would be required to deposit all payments direct to the bank. The bank would be required to return all remittance information to the cruise line. On an average day P&O processes approximately 3,500 separate pieces of paper in its cash receipts group. Further, a large percent of P&O sales are made via credit card. Using an escrow, these charge slips would be forwarded by the travel agent direct to the bank for collection: P&O also records a large volume of credit card purchases over the telephone. How would this be handled? And further, not all group sailings are fully reconciled at vessel departure, so the agent makes a final reconciled payment after sailing is completed. . . .

See Transcript, Los Angeles Hearing, Jan. 16. 1991, Exhibit I, pp. 4 to 5.

In addition, Princess Cruises pointed out that an escrow system may be more appropriate for the chartered airline industry, allegedly because these are small and financially weak companies. The Department of Transportation's security requirement for air charters is at 14 CFR §380.34(a). The security that must be posted must equal the airfare portion of the deposits involving vacation packages of 14 days or shorter. ' Interestingly, the scheduled airline industry is not required to post a bond for nonperformance.

Security Pacific contends that these objections are not very significant. They calculated that on a daily basis an escrow account would hold an average 9.63% of a cruise line's yearly sales. Security Pacific, however, did not submit copies of their calculations and mathematical analysis. They estimated that cruise lines would actually save money with an escrow arrangement because they would not have to pay fees for a letter of credit, as they are required to do now. In a particular case, Security Pacific asserted that the escrow account approach saved a cruise line fifty percent of their previous expenses. In conclusion, Security Pacific believes that their proposal would provide complete passenger protection while saving cruise lines certain expenses associated with the current bonding scheme.

The escrow account arrangement already is an acceptable mechanism to establish financial responsibility, see 46 CFR §540.5(b). In fact, a cruise operator, Delta Queen Steamboat Co., utilizes the bank escrow account procedure. However, to require that an escrow arrangement be the only option seems to be extra especially in light of the costs and administrative burdens that the system may involve.

Adequacy of the Current $15 Million Ceiling

Section 3(a) of P.L. 89-777 states that

> No person in the United States shall arrange, offer, advertise, or provide passage on a vessel having berth or stateroom accommodations for fifty or more passengers and which is to embark passengers at United States ports without there first having been filed with the Federal Maritime Commission such information as the Commission may deem necessary to establish the financial responsibility of the person arranging, offering, advertising, or providing such transportation, or in lieu thereof a copy of a bond or other security, in such form as the Commission, by rule or regulation, may require and accept, for indemnification of passengers for nonperformance of the transportation.

The Commission's regulations prescribe various methods as evidence of financial responsibility. These methods are (1) insurance, (2) escrow account, (3) guaranty, and (4) self-insurance. See 46 CFR §540.5.

If financial responsibility is not adequately established under any of the preceding methods, then vessel operators must file a surety bond issued by an acceptable bonding company. In either instance, however, the coverage

> shall be in an amount determined by the Commission to be no less than 110 percent of the unearned passenger revenue of the applicant on the date within the 2 fiscal years immediately prior to the filing of the application which reflects the greatest amount of unearned passenger revenue. . . .

See 46 CFR §540.6(a).

The $15 million ceiling that was recently implemented appears at 46 CFR §540.9(j). This section reads as follows: "The amount of (1) Insurance as specified in §540.5(a), (2) the escrow account as specified in §540.5(b), (3) the guaranty as specified in §540.5(c), or (4) the surety bond as specified in §540.6, shall not be required to exceed 15 million dollars (US.)."

The vast majority of the participants in this Investigation opposed any further increase of the current $15 million ceiling. The International Council of Cruise Lines ("ICCL") asserted that in no case have claims for nonperformance exceeded $2 million. They also stated that "Cruise lines whose unearned passenger revenue exceeds

$15 million are those cruise lines which have been providing cruise sailings on a regular, scheduled basis for many years with large fleets of expensive ships in which they have a proprietary interest. Thus, in the event the $15 million ceiling is not retained, the additional burdens and costs will necessarily be borne by the cruise lines that are risk free." See ICCL Nov. 21, 1990 submission, p. 5.

Carnival Cruise Lines, Inc., also opposed any further increase in the ceiling. Their reason for opposing such an increase is that ". . . the industry has an impeccable record with regard to fulfilling obligations owed to passengers . . . each of the responding companies can boast an untarnished record where every passenger has received either the contracted for cruise, a substitute cruise or a total refund where the inability to perform was operationally oriented or caused by an act of God. The few instances in which an operator failed to perform were each well below the $10 million bond ceiling then in effect. If history alone is any measure, one would be compelled to conclude that the $15 million maximum evidence of financial responsibility far exceeds the need." See Carnival Cruise Line submission, p. 9.

Royal Caribbean Cruises, Ltd., also opposed any increase in the ceiling. Their position is that the Commission acted properly in increasing the ceiling to its present level, on account of inflationary pressures, but there is no reason at this time to increase the ceiling again. Perhaps in the future the Commission should reconsider increasing it if inflation and other factors justify it. Royal Caribbean also advanced the following argument at p. 3 of their Nov. 20, 1990 submission:

> But the majority of advance deposit monies are in reality not at risk. This is because the cruise industry has a high fixed-cost structure in which it is in the best interest of the operators to continue operating the ships due to their cash flow generating ability. For example, Royal Caribbean requires only a 5200 deposit on cruise fares ranging from $1,000 to $6,000, with the remaining payment due 30-45 days before sailing. Even in the most extreme circumstances, such as a bankruptcy filing, it is in the best interest of the operator and its creditors to continue operations in order to get the remaining portion of the ticket price from its passengers.

The only participant that favored an increase in the current $15 million ceiling was Midwest Agents Selling Travel ("MAST"), an association of 150 travel agencies located in the Midwest. Although they admit that there have been no incidents that warrant an increase in the ceiling, this group considers that as the industry matures, ". . . the mass-market segment of it will develop into an oligopoly. As this process unfolds, weaker cruise lines will fail as has happened in the airline industry." See their Nov. 14. 1990 submission. MAST has no preference for the specific mechanics involved in increasing the level of passenger protection.

The American Society of Travel Agents ("ASTA") appeared in this Investigation. ASTA relied on its comments submitted in Docket No. 90-01, in which they ~~opposed any increase~~ to the then existing $10 million ceiling, They stated that an "unlimited funding requirement is unnecessary if the risks associated with purchases on the larger cruise lines are minimal; such a requirement would only increase prices without providing a meaningful increase in protection." ASTA further stated at p. 2 of their April 4, 1990 submission that

> All costs of consumer protections systems are eventually paid by all consumers of the transportation product. ASTA's policy has been to support consumer protection systems in which the protection is commensurate with the risk. By tailoring the protection in this way, the consumer is protected without having to bear unnecessary costs.
>
> Before removing the cap, therefore, with the attendant upward pressure on already rising fares that might result, ASTA believes that ~~the Commission should first~~ evaluate alternative ways of measuring the risk to consumers to see if adequate protection from the risks of dealing with the larger lines cannot be obtained in other ways at lower costs. One example might be the establishment of financial standards that trigger the need for increased protection only when the standards are not met. Until that need is demonstrated, ASTA opposes the removal of the responsibility cap.

In conclusion, the record is devoid of any compelling evidence that warrants an increase of our current $15 million ceiling. The trends in the industry indicate, however, that the amounts of unearned passenger revenue will continue to grow. There are some alternatives that may increase consumer protection without unreasonably increasing costs to cruise operators. This Report will now describe these options.

The Whole-Ship Contract

Diamond Cruise Ltd., Oy ("Diamond Cruise"), will launch a luxury cruise ship operation in the Caribbean. The vessel Diamond Cruise intends to use is presently under construction in Finland. It will have a twin-hull configuration that will give stability to the vessel and provide spacious accommodations. The Radisson Hotel Corp. will be in charge of all the non-maritime functions of the ship. They expect the vessel to commence operations in 1992.

Diamond Cruise will try to carve out a niche in the cruise industry by catering to the convention and corporate incentive markets. Diamond Cruise will attempt to sell its accommodations to a single corporate customer pursuant to a "whole-ship" contract. More specifically, Diamond Cruise states at p. 2 of their Nov. 21. 1990 submission that:

Under Diamond Cruise's whole-ship contract, the corporate sponsor will purchase, for a fixed fee, all of the passenger accommodations and amenities on board the ship for a determined period of time (usually a week or less). That sponsor will then have the right to designate which individuals, up to the ship's capacity, will travel on the subject cruise. The actual passengers will not pay Diamond Cruise or the corporate sponsor any amounts for their passage; rather, they will receive their passage either as an incentive award or in connection with their attendance at a business meeting. The corporate sponsor will not be permitted to resell or offer for sale to the general public any of the accommodations and services it will purchase from Diamond Cruise. Thus, Diamond Cruise's whole-ship contract program will be completely distinct from, and should not be confused with, the type of "fly-by-night" single cruise charters that initially led to the enactment of P.L. 89-777.

During the Miami hearing on Dec. 12, 1990, Diamond Cruise presented oral testimony that further clarified their future plans. They intend to do the bulk of their marketing with incentive cruises and conventions, but anticipate that there will be some fare-paying passengers. At this moment, the projections are that approximately 25% of their sales will be to individual passengers, 25% to conventions, and 50% for incentive cruises.

Diamond Cruise suggests that the Commission clarify the definition of unearned passenger revenue, which appears at 46 CFR §540.2(i) to the effect that incentive cruises are outside this definition.

Diamond Cruise argues that this exemption would not contravene Congressional intent. If the Commission does not carve out this exemption, Diamond Cruise believes that cruise lines that sell whole-ship contracts:

> . . . will be required to post significant bonds or other indemnification guaranties with respect to whole-ship contract payments despite the fact that the ultimate beneficiaries of such bonds or guaranties will be neither members of the class of persons Section 3 of P.L. 89-777 was initially intended to benefit nor in any real need of those protections. To the contrary, they will be corporate purchasers who are fully able to protect their own interests.

See p. 4 of their written submission.

Diamond Cruise believes that this exemption would work to the benefit of all in their particular operation. For example. their costs would be reduced, because the bond that they would have to post would be significantly smaller. This would decrease the upward pressure on their pricing, thereby benefiting their customers. And, individual fare-paying passengers would still be protected by an adequate bond or other approved security, since Diamond Cruise's proposal would not affect this segment of their client base.

Self-Insurance

One of the matters that concerned most of the cruise lines that appeared in this Investigation was the question of self-insurance. As mentioned earlier in this report, the Commission requires that in order to qualify as a self-insurer "Evidence must be submitted that the working capital and net worth required . . . are physically located in the United States." 46 CFR §540.5(d).

In fact, the requirement that assets be physically located in the United States applies across the board. 46 CFR §540.9(d) states: "Any securities or assets accepted by the Commission (from applicants, insurers, guarantors, escrow agents, or others) under the rules of this subpart must be physically located in the United States."

The International Council of Cruise Lines ("ICCL") took the position that these requirements are obsolete. They stated, at pp. 4-5 of their written submission that

> It is anachronistic for the Commission to require that persons providing the evidence of financial responsibility on behalf of passenger vessel operators maintain sufficient assets in *the United States* to cover possible liability. Members of ICCL have assets in the United States, and, in addition, have substantial equity in vessels at sea which would support liability claims. For the most part, these vessels call frequently at United States ports. The assets of our members. established cruise operators, and of their guarantors and insurers, are maintained in countries which are all part of the international financial community. These parties would generally be subject to process in the United States.

Carnival Cruise Lines, Inc.. agrees that this requirement is no longer necessary. They are a Panamanian corporation, but they maintain substantial assets in the United States. It is a public company, traded on the American Stock Exchange, whose financial statements are readily available. In spite of Carnival Lines' rather unique status, they would like the Commission to consider eliminating this requirement. In support of this, they state the following at p. 8 of their written submission:

> Notwithstanding Carnival's somewhat unique situation, present day international maritime law to a large extent dispels prior concerns with regard to the maintenance of assets in the United States. Remember that the bill was enacted in response to incidents in which "scheduled sailings" were cancelled, and passengers *were* stranded on the dock "without recourse to recover their passage moneys which had been paid in advance." Ostensibly, the response to that situation was to require that assets be located in the United States in order to comply with the self insurance provisions of 46 CFR 5540.1 *et seq.* Interestingly, no such requirement is contained in the statute with regard to financial responsibility. Only to a 'bond or other security" is there a requirement that

the bonding company be authorized to do business in the United States and that such 'bond or other security shall be in an amount paid equal to the estimated total revenue for the particular transportation." Under current international admiralty law most modern countries have adopted concepts of lien rights, through arrest or attachment against oceangoing vessels, for the purposes of obtaining security. Since a ticket contract is in the nature of a charter agreement and therefore deemed to be a maritime contract, the international laws of attachment and arrest would apply. The concerns therefore that substantial assets must reside in the country are therefore mostly illusory.

In the end, the ability of an operator to provide the contracted for cruises and in the alternative, financial recompense is a function of the financial health and stability of the entity. The maintenance of periodic and effective review of those important and vital benchmarks provides that the best means of protecting the public. When the warning bells sound provisions could then be made to require other more accessible means of security to be located closer to home.

Royal Caribbean Cruise Lines asserts that the requirement for U.S.-based assets is the one impediment preventing most cruise lines from becoming self-insurers.

If the Commission were to agree to relieve the industry of the requirement that assets be physically located in the United States in order to qualify for self-insurance, two issues must be addressed. First, the Commission must ascertain that passenger cruise operators have a resident agent capable of receiving subpoenas and other process documents. Second, the Commission must make sure that the countries where these assets are located do not impose restrictions in levying property as a result of a judicial procedure.

American Hawaii Cruises also suggests that the Commission eliminate the simultaneous requirements of net worth and working capital. See 46 CFR §540.5(d). They assert that "imposition of both net worth *and* working capital requirements is unworkable for passenger vessel operators and ultimately may work against the objective of protection of passengers." See AHC's statement, at p. 18.

The irony is that AHC has all of its assets in the United States, but nevertheless cannot become a self-insurer. As mentioned before, because the cruise industry is capital intensive, it is unlikely that a cruise company's working capital could always equal the present ceiling of $15 million. Presently, there are two operators who are self-insurers. One is a travel agent, and the other one is the State of Alaska.

Carnival Cruise Lines suggests that the Commission should consider a net worth test. Net worth is a reliable measure of a company's financial condition. They stated at p. 5 of their statement that:

> A more realistic approach would be to focus upon the net worth of a company, with safeguards in the event the net worth, or acceptable multiples thereof, fall below certain net worth-unearned passenger revenue ratio. Thereafter, and until the net worth levels were reasserted, additional security would be required, such as the existing bonding scheme (based on a sliding scale formula). In short, the experience of the industry and the reality of the way it works must be taken into consideration in devising an effective and reasonable formula.

During the course of the hearings, concerns were raised about the reliability of a cruise company's net worth, as reflected on their financial statements. In a depressed economy, it is questionable whether fixed capital assets may be liquidated at their book values. For example, if a vessel were to be sold at a foreclosure sale., it may not fetch its book value. The case of Aloha Pacific came to mind. That company spent over $40 million refurbishing the MONTEREY, yet, when it was sold in a foreclosure sale, it brought a fraction of the amounts spent acquiring and upgrading it.

Therefore, if the Commission were to decide to liberalize the self-insurance provisions of its regulations, it might consider imposing a certain ratio between unearned passenger revenue and net worth. Some of these formulas are discussed in the following section of this report.

Finally, all cruise lines that participated in this Investigation were asked about the financial implications of a major catastrophe. For example, if a vessel were to sink and hundreds of passengers were to lose their lives, a cruise operator would have a potential liability in the hundred million dollar amounts. Would this in effect wipe out an operator's self-insurance for nonperformance?

The testimony in the record from the representative of the P&I Clubs indicates that these insurance groups provide extensive liability coverage. It therefore appears that if a major catastrophe were to take place. there is a reasonable likelihood that the cruise operator would be able to survive financially.

Sliding Scale Proposals

Several proposals to implement a sliding scale mechanism were made during the course of this Investigation. One of the purposes of these suggestions is to reduce a cruise operator's cost of compliance with the Commission's regulations. However, all cruise lines believe that the current ceiling should not be raised under the guise of implementing a sliding scale.

ICCL's position is that the Commission should take into account a cruise line's past experience. They suggested that "Any concept employed by the Commission should . . . take into consideration longevity of services and

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ability to refund deposits or fares for nonperformance of transportation. It should *not* be based upon revenue or number of passengers carried. To do the latter would penalize larger carriers who are least likely to incur unsatisfied claims for nonperformance.' See p. 4 of ICCL's statement. ICCL goes on to point out that there is an inverse relationship between unearned passenger revenue and risk. The larger the unearned passenger revenue, the lower the risk. This is because operators holding large levels of unearned passenger revenue have substantial assets.

Royal Caribbean Cruises Ltd. also suggests that the Commission consider an operator's past history of performance along with its net worth. However, they do not want a sliding scale to be used " . . . as an excuse for imposing undue burdens on the large cruise operators that have the best performance history and the greatest financial stability in the industry." See p. 2 of Royal Caribbean's statement.

AHC asserts that in its ten year history, it has never had a passenger claim filed under its bond involving a nonperformance dispute. In spite of this good record, the Commission's regulations do not in any way reduce AHC's financial obligations. Therefore, AHC suggests the following at pp. 14 to 15 of their statement

> The Commission should consider a more flexible program such as that in force for unemployment tax pa ments applicable in various states. See e.g.. Virginia Code §§60.2-526, 60.2-531; D.C. Code 3§246-103(c)(3)(A); Maryland Code Ann. art. 95A §8. Under these unemployment tax schemes, when a company is established it is required to pay unemployment taxes at a maximum certain rate, based on its payroll. With the passage of time, if the company does not have claims against it, its unemployment tax rate will decrease. *Id.* This system permits stable, successful employers to reduce their tax rate based on good experience.
>
> In the context of financial responsibility of passenger vessel operators, the Commission could require that all companies initially meet the requirement of full security for unearned passenger revenues up to a ceiling to be set by the Commission. Then, if several years pass with no claims filed against the carrier's bond or other coverage, the requirements for maximum coverage could be reduced on a sliding scale. For example, after a cruise line has been in business for three years without claims, its maximum obligation could be reduced to 85 percent of the maximum and, after five years, the obligation could be reduced to 50 percent, perhaps subject to a minimum requirement to provide continuing protection for customers of very small carriers. This method would reward good performance by reliable, financially sound companies and would still provide the public with more than adequate protection.

Specifically, AHC suggests that the Commission consider the following sliding scale formula:

Category	Required Coverage
Unearned revenue of $0-$5,000,000	100% of unearned revenue up to $5,000,000
Unearned revenue of $5,000,000-$15,000,000	$5,000,000 plus 50% of excess unearned revenue over $5,000,000 subject to an overall maximum of $5,000,000 per vessel
Unearned revenue of $15,000,000-$35,000,000	$10,000,000 plus 25% of excess unearned revenue over $15,000,000 subject to an overall maximum of $5,000,000 per vessel and a $15,000,000 overall maximum
Unearned revenue over $35,000,000	$15,000,000 overall maximum

Carnival proposes another alternative. Their position is that cruise cancellations are sporadic and isolated events that affect a single ship at a time. Therefore, the proper emphasis should be on an operator's financial condition. If the company's net worth is adequate, then self-insurance should suffice. But if the operator's financial condition is not enough to provide coverage, then a "single-voyage" coverage would be imposed.

In the event that an operator's net worth falls below a certain threshold, the gap should be covered by a bond. Carnival suggests the following example to illustrate their point: If an operator has $150 million in unearned passenger revenue, but it only has $100 million in available cash, then the $50 million gap should be covered by the operator's net worth. The net worth should be at least twice the exposure. If the net worth does not equal at least twice this exposure, then a bond would be in order.

Carnival points out that there are certain factors that reduce the chances of passengers losing their fares. First of all. the industry practice is to require an initial deposit, usually of $200 30 to 45 days prior to sailing. If there is an interruption in service, these passengers would stand to lose their initial deposit. If an operator must file for reorganization under the bankruptcy statutes, then it is in an operator's financial interest to fulfill its obligation to sail because this way they will be able to collect the rest of the passengers' fares. Finally, Carnival points out that most operators carry loss of business insurance so that in the event of a business interruption, these funds would be available to reimburse passengers.

Also, AHC suggests that the Commission should consider the seasonal variations in their business. AHC is subject to 25-30 percent variances from season to season. Yet the Commission's regulations require that the security be based on 110% of the ***highest*** amount of unearned passenger revenues during the past two years. *See* 46 CF §540.5. Carnival suggests that besides seasonal fluctuations, the Commission consider the following factors in reducing the applicable ceiling: vessel repositioning, accommodations set aside for cruise staff, specialty cruises and packaging. See p. IO of Carnival's statement.

Recommendations to the **Commission**

In light of the above findings, the Fact Finding Officer hereby recommends that the Commission undertake the following actions:

1. Retain the current **$15 million** ceiling for insurance, escrow, guaranty or **surety** bonds.

The evidence in this Investigation indicates that an increase in the current ceiling of $15 million for insurance, escrow, guaranty or surety bonds is not iustified.

The amount of unearned passenger revenue in the passenger cruise industry exceeds the $1 billion figure. e existing coverage filed with the Commissin is of a tlie tbver $250 million. Therefore, there is a theoretical exposure of over $750 million.

However. the twentv-five vears of industry and Commission experience, since enactment of P.L. 89-777, shows that there is little cause for alarm.

The industry has an almost impeccable record. Missed sailings are now a rare occurrence. Even when there are cancellations, cruise line operators have historically refunded or made alternative arrangements that have been acceptable to the affected passengers.

The few times when there has been any need to utilize the security instrument on file with the Commission, the available funds have been more than sufficient to cover the claims.

The Investigative Officer is unaware of any outstanding litigation or complaints filed against cruise operators regarding nonperformance. In addition, various consumer affairs offices and state attorneys general were informed and encouraged to participate in this Investigation, but they declined to do so. This is taken to mean that there are no pressing problems regarding nonperformance.

The Commission's Office of Informal Inquiries and Complaints ("OIIC") informed the undersigned Investigative Officer that the types of pending complaints against cruise lines do not involve nonperformance. This does not appear to be an issue of concern at this time.

However, should the Commission feel that some type of coverage above the current $15 million ceiling is necessary, an equitable compromise would be to allow for self-insurance above the current ceiling. The self-insurance that is recommended, however, should follow the changes suggested in the second recommendation of this report. These amendments would allow a cruise operator's assets to be located outside the United States. Also, our regulations concerning working capital and net worth would have to be liberalized in order to make this a feasible option.

Another option available to the Commission, if it were to find it necessary to increase the current $15 million ceiling, would be to adopt a sliding scale applicable to the large passenger vessel operators. This would reduce the theoretical exposure that exists between coverage and unearned passenger revenues. However, if this approach is taken, it is strongly encouraged that in setting the scale, an operator's past performance be taken into account.

2. Liberalize the Commission's **self-insurance rules.**

Although the Commission's Rules provide for self-insurance as an option, there are only two entities that take advantage of this alternative. One is a travel agent, and the other one is the State of Alaska. The record is replete with testimony that cruise line operators would like to become self-insurers but cannot do so because of our stringent regulatory requirements. If self-insurance is to be a realistic option, the Commission needs to consider several changes to the regulations.

The concerns raised during this Investigation involve two separate issues in our regulations. One pertains to the requirement that assets must be located in the United States. The other one involves the condition that net worth and working capital both be sufficient to cover any unearned passenger revenue exposure.

The Commission could repeal the requirement that assets be physically located in the United States so long as the operators submitted evidence of the whereabouts of these assets, should there be any future need to reach them. As pointed out earlier in this report, if this recommendation is followed the Commission should require that passenger vessel operators maintain resident agents who will be capable of receiving subpoenas and other legal documents in the event of litigation. Also, in order to qualify as self-insurers, the countries where these assets are located must not restrict the levying of property as a result of litigation.

The Commission could also require passenger cruise operators to periodically file financial statements. These statements should follow generally accepted accounting practices, so that the Commission may monitor the operator's financial health.

Although most of the operators' assets are located outside the United States, the record shows that cruise lines are willing to submit these financial statements to the Commission in U.S.-accepted accounting standards.

The question of net worth and working capital may be addressed by assigning a ratio between a company's net worth and its unearned passenger revenue. Carnival's suggestion that the Commission consider a line's cash reserves and its net worth is reasonable.

The Commission could require that a cruise line's cash on hand and in banks be enough evidence to cover unearned passenger revenue. If there is a gap between this amount and the exposure, then the Commissjon could consider the company's net worth. The Commission could assign a ratio between the net worth and this gap as a multiple of two. This would assure the Commission that a company's net worth is more than sufficient to provide coverage for any potential nonperformance liability.

3. Consider implementing a sliding scale formula.

Most of the cruise operators that participated in this Investigation did not object to a sliding scale formula within the existing $15 million ceiling. However, since most of these operators had unearned passenger revenues well in excess of the ceiling, a sliding scale formula would not materially affect their operations. American Hawaii Cruise Line, however, did indicate that they would look favorably to a sliding scale. Because of its small passenger-carrying capacity, a sliding scale would make a cost difference in their operations.

The Commission should be cognizant that when Congress enacted P.L. 89-777, it had the intention of safeguarding the public from the smaller, less capitalized operators. This is why a sliding scale should have a high lower-end threshold and gradually rise with higher unearned passenger revenues. AHC's proposal balances the need to protect the public from start-up companies while at the same time diminishing the disparity that presently exists between small and large lines.

4. Consider such items as seasonal variations, past experience, vessel redeployment and other related factors in setting the ceiling.

One of the points raised in this Investigation was that the Commission should consider seasonal and other factors in setting the ceiling. It was suggested that it was costly and unnecessary to post a bond or other security instrument to shield an operator's two-year high record of occupancy.

Operators could report their occupancy figures and other relevant data on a quarterly basis so as to enable the Commission to adjust the required coverage. It should be pointed out, however, that this would place additional administrative burdens on the Commission. One possible way to offset this, however, would be to consider imposing a filing fee whenever passenger vessel operators requested adjustment of their coverage.

Similarly, such matters as the operator's past history also are very relevant in setting the applicable ceiling. If the operator is new, the required coverage should be more stringent. With the passage of time, as a track record is established, then our regulations should take this good performance into account. Our present system is inflexible in the sense that a good record is not rewarded.

5. Air-sea packages, foreign-to-foreign and day cruises.

The cruise industry sells a vacation package that often comprises car rentals, airline tickets, hotel accommodations and other amenities. However, the Commission's authority extends only to the sea portion of the trip. Therefore, in the event of nonperformance, passengers are not protected against financial loss involving the air and land portions of the trip.

When Congress enacted P.L. 89-777, the cruise industry was not as sophisticated and mature as it is now. Cruises offered in the 1960's were essentially port-to-port in nature. Cruise vacation packages sold today, however, include a wide variety of air and land options. Therefore, the Commission might consider informing Congress about our lack of authority to extend protection to the land and air portions of cruises. In the other areas regulated by the Commission, intermodalism has become very common, and our jurisdiction extends to joint through bills of lading. Therefore, it would be consistent with the development of the cruise industry for the Commission to assert jurisdiction over the entire package, including the land and air fares, sold to the public.

Sections 2 and 3 of P.L. 89-777 require that vessels subject to the Commission's jurisdiction must, among other things, embark passengers at a U.S. port. This means that the Commission does not have jurisdiction over foreign-to-foreign cruises. Many of these cruises are marketed in the United States, and most of the passengers fly from American cities to a foreign destination in order to embark the cruise.

The Commission is aware of an incident in 1988 involving a foreign-to-foreign cruise. The ship was the GALAXY, and the operator was an entity called Golden Cruise Tours. The cruise sailed from a Mexican port in the Pacific and it was scheduled to cross the Panama Canal and dock in Cancun. The cruise was terminated in Panama and all the passengers were left stranded there. The Los ANGELES TIMES of March 9, 1988 reported the following: "The operators of the cruise company vanished without declaring bankruptcy two weeks ago after the sudden termination of a GALAXY cruise in Panama, well short of its Cancun, Mexico destination. Passengers told of a crew mutiny, knife fights between the crew and captain, spoiled food and toilets that did not work." Because this incident involved a foreign-to-foreign cruise, the Commission did not have jurisdiction over the operator.

Perhaps it might be advisable for the Commission to inform Congress about this regulatory vacuum. We understand that there may be problems in asserting jurisdiction over activities taking place abroad, but if these cruises are marketed in the United States, surely the operators should be made to comply with some rules to assure the protection of the public. A possible solution to this problem may be for Congress to require foreign-to-foreign passenger vessel operators to advise the public that those cruises are not covered under the protections of P.L. 89-777.

Finally, the Commission does not have jurisdiction over "day cruises," "dinner cruises.: "music cruises" or other one-day cruises on vessels that carry large numbers of passengers but do not have fifty or more berths. On Aug. 12, 1987, the then Chairman of the Commission, Edward V. Hickey, Jr., sent a letter to the Committee on Commerce, Science and Transportation of the United States Senate informing about our lack of jurisdiction over these cruises. The letter pointed out that there was no need to require these operators to demonstrate their financial responsibility for nonperformance because these fares are negligible and collected the day the vessel sails. The letter did suggest, however, that P.L. 89-777 be amended so that the provisions of Section 2 concerning casualty apply to these day cruises. The undersigned Investigative Officer concurs with this recommendation.

6. Review our regulations to promote a realistic use of all the alternatives available.

The Commission's regulations allow for insurance, escrow account, guaranty, self-insurance, and surety bonds, as evidence of financial responsibility. In spite of the wide variety of options theoretically available to the passenger cruise industry, the reality is that the industry is not taking advantage of them.

The Commission might consider whether the current regulatory requirements discourage the industry from using all of the options available. At the moment, there is only one operator that uses the bank guaranty arrangement. One cruise line uses the bank escrow arrangement. Nine operators use surety bonds and guaranties issued by insurance companies. Thirty operators rely on the P&I Club guaranties.

The Commission could institute an inquiry to determine alternative methods of providing coverage. Possible fine-tuning of our current regulations could also be considered so as to provide more realistic alternatives to the industry.

Finally, the whole-ship contract exemption proposed by Diamond Cruise is worth considering. This exclusion would only apply to companies that purchased whole-ship contracts, as described earlier in this report. Allowing this exception would not, however, affect individual fare-paying passengers, since the cruise operator would have to continue to establish financial responsibility for them.

MA

LETTER RE: LYKES BROS. STEAMSHIP CO., INC. --)
SECTION 804(a) WAIVER)
)
C.K. Tankersley, Esq.)
Nemirow, Hu, Kurt & Tankersley)
New Orleans, Louisiana) Dated: April 25, 1991

[1:9[2], 1:41, 2:804] Waiver of Section 804(a).

For special circumstances and good cause shown, MarAd waives the provisions of Section 804(a) of the Merchant Marine Act of 1936 to permit the participation of Lykes Bros. Steamship Co., Inc. in reciprocal space charter and coordinated sailing agreement with Deppe Linie GmbH & Co. until the expiration of its ODSA. Approval of a geographic expansion and an increase in U.S.-flag tonnage under the agreement is also granted pursuant to Sections 9 and 41 of the Shipping Act of 1916. Letter re: Lykes Bros. Steamship Co., Inc. -- Section 804(a) Waiver, 25 SRR 1488 [MA, 1991].

On April 24, 1991, the Maritime Administrator took the following actions:

I. Approved the participation of Lykes Bros. Steamship Co., Inc. (Lykes) in Amended Agreement 232-011253 with Deppe Linie GmbH & Co. (Deppe) under Article II-15(c) of Operating-Differential Subsidy Agreement (ODSA), Contract MA/MSB-451.

II. Rescinded the approval dated June 8, 1990, of the participation of Lykes in Agreement 232-011254 with Pharos Lines, S.A. formerly doing business as Constellation Line (Constellation) due to the termination of business by Constellation.

III. Determined that the provisions of Section 804(a) of the Merchant Marine Act, 1936, as amended (Act), apply with respect to Lykes' participation in Amended Agreement 232-011253 (Agreement), and waived such provisions under special circumstances and for

RCL0145

Office of the Chairman

Federal Maritime Commission
Washington, D.C. 20573

Ref: 26:D-6-546

March 27, 1997

The Honorable Sue W. Kelly
United States House of Representatives
21 Old Main Street, Room #205
Fishkill, New York 12524

Attention: Ms. Elizabeth Mesquita

Dear Congresswoman Kelly:

This refers to your letter dated March 10, 1997, pertaining to an inquiry that you received from your constituent, Mr. Anthony Melfe.

Mr. Melfe became ill while aboard the Norwegian Cruise Line (NCL) vessel DREAMWARD. The ship's doctor was not equipped to properly treat Mr. Melfe, and arranged for his disembarkation in Mexico. A doctor at a local hospital recommended that Mr. Melfe be flown to Miami for treatment. The Lifeguard Air Ambulance Inc. assessed $12,900.00 for that service, a charge that Mr. Melfe considers exorbitant. He suggests that NCL could have booked the necessary transport for approximately $6,000.00, and that the Mexican hospital may have received a commission for handling the transaction. Your constituent requests information concerning a cruise operator's responsibilities with respect to passenger illness.

The issues that Mr. Melfe has raised do not fall within the jurisdiction of the Federal Maritime Commission. However, I am enclosing for your information a copy of the U.S. Coast Guard Consumer Fact Sheet No. 17, a document describing regulation of cruise ships by various Federal agencies. According to the information on page two, medical care is an aspect of onboard accommodation that is not covered by government regulation. The medical services that a cruise operator provides appear to be issues of service competition, rather than law.

I regret that we are unable to be of greater assistance.

Sincerely,

Harold J. Creel, Jr.
Chairman

Enclosure

RCL0146

Federal Maritime Commission
Washington, D.C. 20573

Office of the Chairman

July 15, 1998

Ref: 26:D-6-211

The Honorable Barbara Boxer
United States Senate
Hart Senate Office Building, Suite 112
Washington, D.C. 205 10-0505

Dear Senator Boxer:

I refer to correspondence from your constituent, Ms. Virginia Quintana, concerning problems she experienced with Carnival Cruise Lines. As you are aware, the Department of Transportation directed your inquiry on the subject to the Federal Maritime Commission for response.

I regret that Ms. Quintana did not enjoy her cruise aboard the JUBILEE. It is unfortunate that adverse weather conditions prevented the vessel from visiting the scheduled ports of call Nevertheless, the matters at issue are contractual, rather than regulatory, in nature, and the Federal Maritime Commission has no authority to grant the reliefthat your constituent seeks. The passenger ticket contract referenced in Ma. Quintana's letter specifies Carnival's obligations toward its customers. If the parties are unable to negotiate an acceptable settlement, the proper recourse is to a court of competent jurisdiction.

It would appear that the cruise operator has taken a firm position, and a voluntary increase in the level of compensation does not appear likely. However, our staff is contacting Carnival in the hope that the line may give the matter further consideration. I will contact you again when we have its reply.

I hope that this information is of assistance in preparing a response to your constituent.

Sincerely,

Harold J. Creel, Jr.
Chairman

RCLOOO 147

Federal Maritime Commission
Washington, D.C. 20573 - 0001

Office of the Chairman

June 27, 2000

The Honorable Spencer Abraham
United States Senate
26222 Telegraph Road, Suite 200
Southfield, Michigan 48034

Dear Senator Abraham:

I refer to your letter of May 15, 2000, addressed to Captain Jeff Hathaway of the United States Coast Guard, and to an inquiry that you had received from your constituent, Mr. Roger De Vries. Mr. De Vries was a passenger aboard the December 26 "millennium cruise" sailing of the Carnival Cruise Lines vessel PARADISE, and the Coast Guard has referred the matter to the Federal Maritime Commission for review and response.

As a result of mechanical problems, Carnival significantly altered the itinerary of the PARADISE, substituting ports that were of little interest to Mr. De Vries. Your constituent suspects that the cruise line's senior staff should have known that the vessel's problems would make the scheduled itinerary impossible, and believes that he is entitled to compensation. Inasmuch as millennium cruise patrons paid a premium for this disappointing experience, he is requesting a 50 percent refund, as well as additional compensation in the form of a $300.00 credit against onboard stateroom charges.

The Federal Maritime Commission has no authority to compel Carnival Cruise Lines to honor this compensation request. However, we previously received a number of complaints concerning the millennium cruise, and also referred those complaints to Carnival for review and comment. The line has now advised us that no further compensation will be offered to any of the passengers, beyond the $100.00 per stateroom credit and 25 percent future cruise discount previously granted.

Carnival agrees that technical problems and time restrictions forced a change of itinerary. However, the line contends that the cost of the substituted Western Caribbean cruise would be comparable to that of the original Eastern Caribbean itinerary. Although this may well be true, it does not take into account the much higher special rate that was assessed for the millennium cruise.

Carnival observes that the PARADISE called at the same number of ports as had been included in the original itinerary. Further, none of the services or amenities were interrupted or changed in any way, and the millennium celebration occurred as originally planned. The line maintains that the only deviation from the norm was the loss of power of one engine for a limited period of time, and the resulting substitution of four Caribbean ports for the four originally offered.

Carnival further notes that its passenger ticket contract permits the alteration and cancellation of itineraries with or without notice, in the interests of security and safety. In addition, that contract specifies that the Master may deviate in any direction or for any purpose, and that the line shall have no liability for compensation or damages in such circumstances. Carnival notes that the brochures provided to travel agents clearly specify this policy.

The line also notes that several hundred passengers participated in a meeting on December 27th in the ship's main lounge. Those who attended were offered the opportunity to debark at Freeport or Nassau, and approximately 100 passengers did so. However, many of the passengers did not learn of this option until it was too late.

I regret that we are unable to provide further assistance. However, I trust that this information will be of value in preparing a response to your constituent.

Sincerely,

Harold J. Creel, Jr.
Chairman

Office of the Chairman

Federal Maritime Commission
Washington, D.C. 20573

January 16, 2002

The Honorable Robert Wexler
U.S. House of Representatives
2500 North Military Trail, Suite 100
Boca Raton, Florida 3343 1

Dear Representative Wexler:

I refer to correspondence that you directed to the Department of Transportation concerning a complaint that your constituent, Mr. William Goldberg, had filed against Royal Caribbean Cruises, Ltd. The Department subsequently referred the matter to the Federal Maritime Commission, and our Legislative Counsel Amy W. Larson acknowledged receipt on January 8, 2002.

Mr. Goldberg and eleven relatives had booked a December 24 cruise in celebration of Mr. and Mrs. Goldberg's fiftieth wedding anniversary. After the terrorist events of September 11, the members of the party elected to cancel their bookings, and contacted their travel agent for this purpose on September 26. Unfortunately, Royal Caribbean applied a cancellation penalty on the -grounds that the action occurred fewer than 90 days prior to sailing.

The cruise operator seems to have correctly calculated the cancellation to have occurred 89 days prior to the scheduled departure. In our experience, cruise lines tend to enforce refund penally schedules strictly, arguing that those who purchase cruise cancellation insurance coverage might construe penalty waivers as unfair. Since the matter is contractual, rather than regulatory, in nature, the Commission has no authority to require Royal Caribbean to alter its position on Mr. Goldberg s claim.

I regret that we are unable to provide a more welcome response.

Sincerely,

Harold J. Creel, Jr.

RCL000150

Office of the Chairman

Federal Maritime Commission

Washington, D.C. ED573

October 21, 1998

The Honorable Elizabeth Furse
U.S. House of Representatives
Attn: Ann Richardson
Montgomery Park
2701 NW Vaughn, #860
Portland, OR 97210-5391

Dear Congresswoman Furse:

This refers to your October 9, 1998 letter forwarding a September 21, 1998, letter from the travel agent representing your constituents Jack and Irene Petersen concerning delays in refunds to passengers involved in the Regency Cruise Line ("Regency") bankruptcy. You have asked our intervention on the Petersens' behalf to expedite payment and closure. You have also requested that we keep you informed of our action on the Petersens' behalf.

Before proceeding to specifics, I should note that the Federal Maritime Commission ("Commission") does not have jurisdiction to adjudicate claims against Regency. The Commission administers sections 2 and 3 of Pub. L. 89-777, which are implemented by regulations published at 46 C.F.R. Part 540. The statute and regulations require certain persons to demonstrate that they have financial responsibility to indemnify passengers for death, injury or nonperformance of transportation on vessels with fifty or more berths that embark passengers from United States ports. The Commission does not, however, have authority to adjudicate the claims that may be presented against passenger vessel operators.

Regency met its obligation to demonstrate its financial responsibility by filing with the Commission performance and casualty guaranties underwritten by the Newcastle Protection and Indemnity Association ("Newcastle"). Regency subsequently filed for chapter 11 bankruptcy protection in the Bankruptcy Court for the Southern District of New York, Case No. 95-45197. At that time Newcastle, through its agent for service of process, the law firm of Freehill, Hogan & Mahar, 80 Pine Street, New York, New York 10005-1759 (Telephone: 212-425-1883; fax: 212-425-0392) ("Freehill"), established a process to handle the claims against the bond that it had issued on Regency's behalf. It is my understanding that the Petersens have filed a claim with Freehill and they are listed with the Bankruptcy Court as being among the passengers asserting a claim against the performance guarantee.

We have been advised by Newcastle's staff that, in the last six months, the Bankruptcy Court has granted the release of funds for claims by passengers that are covered by the Commission's Pub. L. 89-777 program. This process has been prioritized so that those owed full passage payment will be compensated first. Reimbursement priority will also be conditioned on the time the payment was made and on expected embarkation.

Newcastle's staff has advised that about $325,000 of the $3.5 million in passages paid by cash for U.S. cruises have been mailed to claimants. We have also been informed that 90% of all passengers who paid by cash or check should be compensated by the end of the calendar year. The other ten percent involve administrative problems such as instances where claimants' addresses have changed.[1]

It has now been almost three years since Regency ceased operations. We understand that much of the delay in indemnifying passengers is attributable to the "Automatic Stay" issued pursuant to sec. 362(a) of the Bankruptcy Code, which has effectively prevented the passengers from prosecuting any action against Regency. Other contributing factors include the procedural safeguards inherent in the bankruptcy process, together with the need to resolve the many legal questions that have been raised by the Bankruptcy Court and the bank holding the counter security supporting Regency's section 3, Pub. L. 89-777, guaranty.

YOU have indicated that it would be desirable to alter the bond system of restitution, which has permitted such lengthy delays. Your concerns are certainly understandable. However, because this issue involves matters within the jurisdiction of the Bankruptcy Court, it would be inappropriate for me to comment on the Court's actions as they relate to the indemnification of passengers entitled to the protection of Pub. L. 89-777. Furthermore, I would note that legislative action to insulate the indemnification of passenger nonperformance claims from general claims against the bankrupt's estate in cases such as this could act to reduce, if not prevent, such delays in the future.

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[1] It should be noted that approximately 50 per cent of the eligible passengers used credit cards for their deposits or prepaid fares and already have been indemnified outside of the bankruptcy process. The involved credit card issuers in turn are seeking reimbursement from Regency as a subrogee. As we understand it, the credit card repayments are not absolute. The credit card issuer has the right to reverse the credit it has given the passenger if it is unsuccessful in obtaining reimbursement from Regency or Newcastle.

I hope this is responsive to your inquiry. If you have any further questions, please do not hesitate to contact me or Bryant L. VanBrakle, Director, Bureau of Tariffs, Certification and Licensing, by telephone at 202-523-5796, by facsimile at 202-523-5830 or by E-Mail at bryant@fmc.gov.

Sincerely,

Harold J. Creel, Jr.
Chairman

cc: George B. Freehill, Esq.
Freehill, Hogan & Mahar
80 Pine Street
New York, NY 10005-1759

Ms. Greta Beatty
President
Beatty Group Travel
9800 SW Beaverton-Hillsdale Hwy Ste. 105
Beaverton, OR 97005